United Nations A/52/399

General Assembly

Distr.: General
25 September 1997

Original: English

Fifty-second session
Agenda item 95 (a)

Macroeconomic policy questions: financing of development, including net transfer of resources between developing and developed countries

Sources for the financing of development

Report of the Secretary-General

Contents

		Paragraphs	Page
I.	Introduction	1–3	2
II.	Sources of finance for development	4–25	2
	A. Domestic savings of developing countries	5–6	2
	B. International resource transfers to developing countries	7–25	3
	1. Savings for international transfer and their acquisition by developing countries	7–11	3
	2. Financial composition of the net transfers to developing countries	12–25	4
III.	Mobilizing financial resources	26–34	7
	A. The need for an enabling environment	26–28	7
	B. Policy for the domestic financial sector	29–34	7
IV.	Development and its financing in the new millennium	35–42	8

Tables

1. Investment and savings of developed and developing countries, 1980-1995 3
2. Official development assistance of member countries of the Development Assistance Committee, 1980-1996 6

97-25897 (E) 131097 141097

I. Introduction

1. The present report was prepared in response to General Assembly resolution 50/93 of 20 December 1995, in which the Assembly decided to consider at its fifty-second session the convening of an international conference on the financing of development and requested the Secretary-General to prepare a report on substantive areas.

2. Since the adoption of resolution 50/93, there have been a number of related developments. In annex I, paragraph 88, of its resolution 50/227 of 24 May 1996 on further measures for the restructuring and revitalization of the United Nations in the economic, social and related fields, the General Assembly indicated that the Economic and Social Council should schedule periodically a high-level meeting at a time proximate to the semi-annual meetings of the Breton Woods institutions. Subsequently, in adopting the Agenda for Development, the Assembly indicated that due consideration should be given to modalities for conducting an intergovernmental dialogue on the financing of development (Assembly resolution 51/240 D, annex, para. 287). In paragraph 41 of the report of the Secretary-General, entitled "Renewing the United Nations: a programme for reform" (A/51/950), it was proposed that a high-level one-week segment of the General Assembly be held and that the first such session might be on international financing for development.

3. The present report focuses on the sources of finance for development and the private and official mechanisms that transform finance into investment. However, reflecting the broad nature of the subject and the wider procedural considerations, complementary material, in addition to that referred to above, is contained in a number of other reports prepared for the present session of the Assembly, notably the reports of the Secretary-General on global financial integration (A/52/406) and on the debt situation of the developing countries as at mid-1997 (A/52/290). For its part, following its most recent high-level segment, the Economic and Social Council adopted agreed conclusions, several of which also pertain to the financing of development.[1]

II. Sources of finance for development

4. Whether world savings are adequate to meet the growing financial demands of the developed, developing and transition economies has been an international concern for a number of years. The debate has been about the pressure on world savings that could arise from the combination of public-sector deficits in industrialized economies and the continually expanding investment demand in developing and transition economies. A savings shortfall, it is feared, could put upward pressure on world real interest rates, which, among other things, could weaken overall economic activity and discourage necessary investment. From a development perspective, the issue can be addressed in terms of the savings generated domestically and the prospective transfers of financial resources from abroad.

A. Domestic savings of developing countries

5. The developing economies, like all economies, have mainly relied upon their domestically generated savings to finance their investment (see table 1). In the 1990s, they have been able on the whole to invest more than their own saving permitted, owing to positive net transfers of resources from abroad. But these net transfers have on balance averaged less than 1 per cent of their gross domestic product (GDP). The economies of eastern and southern Asia, which have the highest average investment rates among all developing economies, also have the highest average saving rates. Net transfers to this region have been less than 1.5 per cent of GDP. In China, the country with the highest investment rate, domestic savings exceed investment. Net transfers to Latin America in the 1990s have been positive, but relatively small, after having been negative in the 1980s. Africa has required substantial net transfers (relative to its GDP) owing to declining domestic saving rates during the long period of shrinking per capita income, which has only recently been arrested.[2]

6. The high saving rates in some developing economies suggest that savings could be increased in the countries with lower savings. The difficult question is how to bring that about. First, sustained and high growth of income is an important factor in raising saving rates. Thus, policies to spread such growth to more developing countries would create the potential for a virtuous cycle of income growth generating more savings for further growth. Secondly, fiscal deficit reduction — a decline in public dissaving — generally raises national savings.[3] A third factor is financial sector liberalization and reform, although such policies have been found to have different effects on saving rates of countries at different levels of income. The effect on savings in low-income countries, in particular, appears to be negligible, primarily because low-income individuals tend not to reduce consumption and save more when interest rates rise.[4] A further factor affecting saving in developing countries is the changing age structure of their populations.

Table 1
Investment and savings of developed and developing countries, 1980-1995
(Percentage of GDP)

	Gross domestic investment				*Gross domestic saving*			
	1980	*1985*	*1990*	*1995*	*1980*	*1985*	*1990*	*1995*
Developing economies	25.9	23.3	25.2	27.3	29.0	23.9	25.9	26.7
Latin America	24.8	19.1	19.8	19.7	23.6	23.8	22.1	19.5
Africa	25.1	20.7	22.6	21.8	30.0	20.8	19.3	16.7
Western Asia	23.7	20.7	23.1	22.0	40.9	19.5	24.3	24.2
Eastern and southern Asia[a]	26.1	24.1	29.3	31.9	23.8	24.2	28.9	30.4
China	35.2	37.8	34.7	40.5	34.9	33.7	37.5	42.0
Developed economies	23.4	21.4	22.2	21.2	23.7	21.8	22.3	21.9

Source:
World Economic and Social Survey 1997 (United Nations publication, Sales No. E.97.II.C.1 and Corr.1), tables A.5 and A.11.

[a] Excluding China.

As a result of declining birth rates, the proportion of the population that is under 15 or over 65 years of age is projected to decline significantly[5] and that can be expected to boost savings rates. In many African countries, however, the positive effect of this demographic change will be more limited for the time being because the decline in birth rates has been relatively small and more recent.

B. International resource transfers to developing countries

1. Savings for international transfer and their acquisition by developing countries

7. The developed economies as a whole usually save more than they invest domestically and transfer the surplus abroad in the form of public and private investments, loans and grants. In 1993-1995, the net transfer averaged almost 0.7 per cent of their aggregate GDP, most of which was absorbed by developing countries.[6] Some of the developed countries, notably the United States of America, have absorbed substantial net resource transfers from other countries, while other countries, notably Japan, Germany and some other Western European countries, have been large net suppliers.[7] But as the amounts supplied have exceeded the amounts absorbed in most years, the aggregate flow has largely been outward.

8. The degree to which the supply of savings from the developed world will continue to be available to supplement the domestic savings of the developing countries depends primarily on future growth in savings and investment in the developed countries. The gross domestic saving rate of developed economies in the first half of the 1990s averaged over 21.5 per cent, which is comparable to the rate in the mid-1980s. Although the saving rate declined in the recessionary early years of the 1990s, this was reversed by 1994. The largest swing was in the public sector, as government deficits swelled during the economic slowdowns. However, a combination of economic recovery in some countries and deficit reduction policies generally helped reduce the deficits, and by 1994 the developed country governments in aggregate were again a source of saving (i.e., current revenues exceeded current expenditures). Private savings, largely reflecting cyclical developments, also reversed its decline in 1992 and rose annually between 1992 and 1994.

9. The rapid growth in public expenditures that gave rise to growing fiscal deficits was only partly related to cyclical developments. There were also longer-run trends operating that have come to be widely regarded as unsustainable. This is the reason that fiscal consolidation programmes have been widely instituted and further deficit reduction is expected in coming years, at least in the short run.

10. Despite fiscal consolidation efforts, growing pressures will be placed on the public sector budgets of the developed

economies over a longer horizon by the rapid ageing of their populations. Public spending on items such as pensions and health care are currently expected to increase sharply as the portion of the population in retirement increases. Moreover, the growing share in the population of the elderly who tend to have lower rates of saving could lead to a decline in overall private saving rates. Indeed, the current savings of individuals anticipating retirement in the next century directly account for some of the present surge in portfolio investment in emerging markets. Current demographic trends suggest that the pressure of an ageing population on both public budgets and private saving rates are not imminent, but they could become significant in 2010 and beyond.[8]

11. In the short to medium term, developed countries are likely to have financial resources available for transfer to developing countries at approximately the current real rates of interest. By the second decade of the next century, however, when net transfer capacities of developed countries are declining significantly, more developing countries may have become net sources of international savings. The net outcome in the long run is therefore hard to project. The more urgent consideration is to make as many developing countries as possible into attractive placements for the world's international savings flows in order to spread economic growth now and thereby bolster the global supply of savings later.

2. Financial composition of the net transfers to developing countries

12. Net-debtor developing countries received net financial transfers (i.e., net inflows after payment of interest and dividends and net domestic financial outflows) of $87 billion in 1996.[9] The overall net transfer in 1996 was similar to that of earlier years in the 1990s. Of the overall net transfer, $35 billion was used to finance imports of goods and services and the rest was added to official reserves. By the end of 1996, total official reserves in these countries had reached $465 billion, equivalent to the funds needed for imports of goods and services and for foreign interest and profit payments for almost four months.

13. There was a net transfer of official resources out of the developing countries in 1996, as the new inflows of official loans and grants were less than the outflows of interest and principal. The net outward transfer through official flows was an anomaly caused by Mexico's advance repayment of some of its earlier emergency loans from official creditors, as these loans were refinanced through private borrowing. Even so, the trend in the net transfer through all sources of official flows taken together and measured in current dollars has remained one of slow decline.

14. The large volume of private financial transfers to developing countries in 1996 was associated, in part, with the moderate interest rates in developed countries and continuing diversification and rapid growth of institutional investment portfolios, although foreign direct investment (FDI) has also been on a strong upward trend. The spread of sound national economic policies and strong economic growth in a number of developing countries were major factors encouraging these inflows.

15. The distribution of private financial flows to individual countries has remained highly uneven. Ten countries accounted for over three quarters of the total flow in 1996. Also, net private financial flows constituted a much smaller percentage of gross national product (GNP) in low-income countries (1.5 per cent in a World Bank grouping that excludes China and India) than in middle-income countries (3.2 per cent).[10] The exclusion of most low-income developing countries from those receiving significant amounts of international private finance remains a special concern, as it leaves them dependent on increasingly limited official financial flows.

16. The experience of Africa in this regard is frequently contrasted with that of Asia and Latin America. With the return to private borrowing of a number of heavily indebted countries, net private transfers to Latin America resumed at the beginning of the present decade and became the dominant source of their net financial transfer. They have remained strong even after the temporary setback of the Mexican financial crisis in 1994. In eastern and southern Asia, net private transfers, albeit more heavily weighted towards FDI, have dominated net financial transfers in the 1990s.

17. In Africa, after more than a decade of net withdrawal of private funds, the trend has finally begun to change. There has been some increase of private financial flows to the region in the past two years, although from a very small base. Progress in macroeconomic stabilization and economic reform, financial liberalization, the creation of stock exchanges and the acceleration of privatization programmes in a number of African countries have begun to attract foreign inflows, although higher rates of return than in other developing regions are still demanded by investors. These private flows have been concentrated in a small number of countries (principally, Algeria, Côte d'Ivoire, Egypt, Ghana, Morocco, Nigeria, South Africa and Tunisia). The fastest growing financial flows have been portfolio investment and commercial bank loans, although loans have been

particularly concentrated in South Africa. Foreign direct investment still constitutes only about one fifth of net private flows, and is highly concentrated in the energy and mining sectors. However, with accelerated privatization in a number of countries, both portfolio and direct investment can be expected to rise further.

18. On the whole, FDI has become the largest component of private financial flows to developing countries, growing almost fourfold in the 1990s. This is important because, in addition to being a source of finance, FDI can be a means of technology transfer and access to international export markets. The rapid growth of FDI reflects the increasing globalization of production of transnational corporations, on the one hand, and, on the other hand, the economic reforms in a growing number of developing countries, particularly as regards regulation of foreign investment and trade and the privatization of public enterprises.

19. For countries that do not yet enjoy sufficient access to private flows and in order to assist developing countries more generally in investing in areas that do not entail "bankable" projects (such as anti-poverty programmes), official development finance remains a primary source of external resources. However, most of the flows under the standard operations of the multilateral development banks are originally private funds. The basic mechanism in the World Bank and the regional development banks is that they sell their own bonds to private investors and on-lend the proceeds to developing countries at slightly higher interest rates. As the bonds of the institutions are backed by the Governments that are their shareholders, the bonds are deemed to have low risk. Most borrowers would be unable to raise comparable long-term finance under their own guarantee. The multilateral development banks also help mobilize private funds for investment in jointly financed development projects. Direct multilateral participation provides an implicit and sometimes explicit guarantee against risk. A separate mechanism to encourage private flows is the sale of multilateral investment insurance against non-commercial risks to direct investors in developing countries, as provided by the World Bank through its Multilateral Investment Guarantee Agency (MIGA).[11]

20. All the international mechanisms noted above pertain to flows of funds under near-commercial conditions. Others are highly concessional loans or grants that come directly or indirectly from the budgets of donor countries. Most of the countries that receive these latter flows are at a relatively early phase of development and only have the capacity to absorb such financing on highly concessional terms. Yet, with the end of the cold war and with the higher priority in donor countries for fiscal consolidation, there has been a reassessment of official development assistance (ODA) commitments in certain donor countries. In addition, financing needed for emergencies and humanitarian assistance has diverted considerable funding from regular development programmes since 1990.[12]

21. ODA in 1996 from member countries of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) was $55.1 billion, almost $4 billion less than in 1995. This represents a decrease of 4 per cent in real terms from 1995, following a decline of 9 per cent that year (see table 2). Aid from other sources is small, albeit growing for certain new developing country donors; however, it totalled only about 1.5 per cent of the DAC effort in 1995.[13] As a share of the combined GNP of DAC member countries, ODA was also at a record low in 1996, falling to only 0.25 per cent. Four countries (Denmark, the Netherlands, Norway and Sweden), as in previous years, exceeded the United Nations aid target of 0.7 per cent of GNP in 1996. While the ODA flows of certain donors have been declining in the 1990s, the United States being a particular case in point, the largest decline in 1996 was on the part of the largest donor, Japan, whose ODA dropped by 25 per cent in real terms. While this decline was primarily attributable to transitory factors, longer-term declines can also be expected, based on the approved Government budget.

22. The consequences are acute for the least developed countries, which remain heavily dependent on ODA for external financing. ODA flows from DAC member countries to least developed countries stagnated in the first half of the 1990s and declined markedly in real terms, particularly in 1995.[14] As a proportion of the combined GNP of donor countries, ODA flows to the least developed countries declined steadily from 0.09 per cent in 1992 to 0.06 per cent in 1995, far below the United Nations aid target for those countries of 0.20 per cent of donor GNP.

23. The contraction of aid budgets has created special difficulties for multilateral institutions. Whereas contributions to some agencies, such as the United Nations Development Programme, are voluntary, in other cases donors agree to fixed burden-sharing arrangements. It is problematic when a major donor cuts back its contributions to any agency, but it is worse when such a cutback limits the funding of the agency by the other donors. Thus, to overcome the adverse consequences for the replenishment of some funds, new approaches to financing have been sought.

24. One approach was adopted in the Fourth Replenishment of the International Fund for Agricultural

Table 2
Official development assistance of member countries of the Development Assistance Committee, 1980-1996[a]

	ODA/GNP (Percentage)			*ODA volume (Annual percentage change)*			*ODA amount (Millions of dollars)*
	1980-1984 average	*1985-1989 average*	*1996*	*1990[b]-1995*	*1995[c]*	*1996[c]*	*1996*
Australia	0.48	0.42	0.29	2.5	5.2	-15.1	1 093
Austria	0.29	0.23	0.28	9.3	1.2	-14.0	640
Belgium	0.56	0.46	0.35	-3.9	23.1	-6.4	937
Canada	0.45	0.47	0.31	-0.6	-9.2	-15.4	1 782
Denmark	0.76	0.89	1.04	3.3	-2.6	10.5	1 773
Finland	0.29	0.54	0.34	-14.5	8.1	9.3	409
France	0.53	0.59	0.48	0.8	-12.2	-11.3	7 430
Germany	0.46	0.41	0.32	-0.9	-4.5	3.8	7 515
Ireland	0.20	0.21	0.30	17.4	29.7	14.5	177
Italy	0.20	0.37	0.20	-9.7	-42.6	33.9	2 397
Japan	0.31	0.31	0.20	0.2	1.2	-24.7	9 437
Luxembourg	0.20	0.18	0.41	14.4	-5.9	21.6	77
Netherlands	1.01	0.97	0.83	-0.8	10.8	6.2	3 303
New Zealand	0.28	0.26	0.21	2.7	-1.2	-7.3	122
Norway	0.97	1.09	0.85	1.1	-4.4	3.1	1 311
Portugal	0.03	0.16	0.21	8.3	-25.0	-15.6	221
Spain	0.09	0.10	0.22	10.1	-8.2	-8.6	1 258
Sweden	0.85	0.89	0.82	-1.8	-16.8	7.6	1 968
Switzerland	0.27	0.31	0.34	3.0	-5.9	-1.6	1 021
United Kingdom	0.37	0.31	0.27	1.8	-6.5	-0.8	3 185
United States	0.24	0.20	0.12	-4.4	-27.6	20.6	9 058
Total	**0.34**	**0.33**	**0.25**	**-0.9**	**-9.4**	**-4.2**	**55 114**

Source: Development Assistance Committee of the Orgnisation for Economic Cooperation and Development.

[a] Data for 1996 are preliminary.

[b] 1994 exchange rate and prices.

[c] Prices and exchange rates of previous year.

Development (IFAD) in November 1996. Originally, there had been a rigid three-category system of membership in IFAD (OECD countries, member countries of the Organization of the Petroleum Exporting Countries and other developing countries). This was changed into a more flexible structure in which members will have two types of votes in IFAD, equal membership votes and votes based on the size of their contribution.

25. In the case of multilateral development banks, which operate non-concessional lending programmes as well as concessional ones, some of the profits from the non-concessional lending activities are now being redirected to concessional lending. This was done, for example, in 1996 in the Eleventh Replenishment of the International Development Association (IDA) and in 1997 in the Seventh Replenishment of the Asian Development Fund at the Asian Development Bank (in the latter case, provision was also made for increased contributions from some developing countries in Asia). One consequence of tapping profits for use in the concessional facilities, however, is it prevents the banks from sharing the benefits of their earnings with their non-concessional borrowers, as in the form of lower costs and charges. Clearly, there are limits to this mechanism.

III. Mobilizing financial resources

A. The need for an enabling environment

26. The most effective way for developing economies to capture international savings is to adopt policies that enhance their own domestic capital formation and thus their own savings as well. These are largely matters for domestic policy design. However, many of the steps necessary for the creation of such an enabling environment are beyond the control of individual developing countries and require international policy efforts.[15]

27. The domestic policies required for this purpose should aim, *inter alia*, to establish and maintain a stable macroeconomy, including sustainable levels of domestic and external indebtedness. For those countries whose past experiences led to the build-up of an excessive foreign debt overhang, national policy by itself generally will not suffice to return the country to a sustainable debt situation and international assistance to alleviate the debt burden is required.[16]

28. In addition, adequate physical and social infrastructure are prerequisites for an environment conducive to long-term investment commitments, and these, too, often warrant international assistance to finance and sometimes also to help design. Policies should also seek to ensure that investments are made in a manner consistent with national and international objectives of economic and social development, which are typically elaborated in social and economic development plans and programmes.

B. Policy for the domestic financial sector

29. The financial sector links those needing financial resources and those with a surplus. It thus plays an essential role in the mobilization of financial resources for development. A sound financial system — where the banking system is secure and mechanisms are developed for long-term financing needs — is crucial to the funding of productive investments.

30. The bulk of the funds in the financial sector, however, are used for short-term needs, as for working capital, international trade and so on. Commercial banks are the primary financial intermediary for such activities, although financial markets have increasingly played a role for large borrowers, even in developing countries.[17] Long-term finance is provided by financial institutions and through markets, increasingly including equity markets in developing countries. Government and/or government-owned financial institutions have provided funds for long-term investment and intervened to a greater or smaller degree in the operation of the private financial sector in most countries. However, the major direction of policy in this sector since the 1980s has been to reduce the role of government.[18]

31. Developing countries have decontrolled i terest rates, reduced government-directed credit, developed new instruments for long-term investment financing and sought to build a more effective regulatory and supervisory structure. Financial liberalization, in combination with decontrol of international financial transactions in some countries, has also increased the degree of integration into the global financial market. The net result has been, on the one hand, an improved allocation of financial resources, and on the other hand, the exposure of still-fragile financial systems to strong speculative pressures that have frequently led to financial crises.

32. Weak prudential regulation and supervision, particularly in the face of poor lending practices, has emerged as a major factor undermining the financial sector. In several countries, liberalization of external financial flows was coupled with high local interest rates. These attracted large inflows of "hot" money that financial institutions placed in questionable investments, thereby raising the

overall riskiness of their loan portfolios. In several cases, the surge in liquidity went into unproductive and speculative ventures, leading to a rise in non-performing loans and increased risk of insolvency. Sometimes, the cracks in the financial system were revealed and a crisis provoked by a sudden movement of funds abroad, creating a grave liquidity problem if the banking system had low and poorly monitored reserve ratios.

33. As a result of several instances of domestic financial crisis in developing countries in recent years and the increasing desire to integrate these economies into the international financial system, international groups of financial regulators have been seeking to develop agreed standards for financial sector supervision, including the development of a set of core principles for effective banking supervision and a strategy for financial stability in emerging market economies.[19]

34. Even as the formal financial sector develops and is strengthened, it is rare that it adequately serves the entire economy. In particular, small-scale borrowers may be overlooked, leaving them to rely on an informal financial sector that thus continues to play a role in financial intermediation in most developing countries. "Moneylenders", while famous throughout history for taking advantage of their clients, have low transaction costs in channelling credit to small-scale production units (artisans, self-employed traders and small farmers), which usually have no collateral and require very small amounts of credit. However, there has been an increasing international focus on fostering institutional innovations in microfinancing. For example, lending to small groups of borrowers in a single community has increasingly been recognized as an efficient mechanism for providing finance for production to the poorer segments of society.[20]

IV. Development and its financing in the new millennium

35. The 1990s have seen further evolution in thinking about the nature of development, to the extent that reference is sometimes made to "the new global consensus on development". This new "consensus" emerged both from the development experiences of past decades and as a result of discussions on development issues, including those that took place as a result of the sequence of United Nations global conferences of the first half of the decade. The consensus is reflected in a number of national and international policy statements, the most recent and most comprehensive example being the Agenda for Development adopted by the General Assembly on 20 June 1997 (resolution 51/240, annex).

36. For its part, the Development Assistance Committee of OECD adopted in 1996 a new statement of goals to guide the future development of ODA of its member countries.[21] In these guidelines, DAC supplemented its traditional targets for flows of aid with targets regarding outcomes. The new goals focus on poverty reduction in developing countries and specify targets in social and environmental areas to be met by 2005 and 2015, drawn primarily from the international conferences held under United Nations auspices in the 1990s.

37. Concurrently with, and partially related to, these new currents in development thinking and practice, there have been even more profound changes in the volume and nature of world financial flows. The most dramatic change has been the explosion of international movements of private capital, in particular the increased participation of a number of developing countries in these flows. The increased role being given to market forces in the development process and the consequent liberalization and deregulation of markets in many developing countries have stimulated large increases in foreign direct investment and other private capital flows to a number of developing countries.

38. At the same time, aid fatigue and fiscal stringency in the developed countries, both related to increasing doubts about the efficacy of the State as an instrument of development, have combined to produce the downward trend in the volume of ODA identified above. The result has been a shift in the composition of flows of finance for development from the public to the private sector. Moreover, within official flows, recent years have seen an increasing proportion being allocated to immediate humanitarian needs, to the detriment of allocations for longer-term development purposes.

39. The total net transfer of resources to all developing countries has increased dramatically in the past decade. However, the nature, distribution, composition, terms and conditions of these flows have also changed, raising the question of whether the new pattern of flows is consistent with the international community's new consensus on development and appropriate to the needs of the developing countries. One universally recognized shortcoming in the growth of private transfers is that it has been restricted to a limited, although slowly increasing, group of countries. For some countries, increased private inflows have replaced decreases in ODA in financial terms; in other instances, such has not been the case and declining net financial transfers have become a constraint on development.

40. Even if transfers are maintained or increased in financial terms, the changing composition of total flows to a developing country is likely to have development implications. Because of the various inefficiencies ascribed to public sector activities, a shift from public to private financing is likely to be beneficial in many circumstances. However, private financing is not necessarily attracted to all the activities that are priorities for development, including many of those required to create the enabling environment to attract private flows. This applies, for example, to expenditures with either long pay-off periods (such as physical infrastructure) or with returns that are difficult to quantify in financial terms (such as health) or both (education). Private capital has a role to play in all these areas, but a large part of the increase in private capital flows to developing countries to date has taken the form of portfolio capital and short-term flows. These do not necessarily respond to development priorities and, because of their volatility, can have destabilizing consequences. There remains a substantial need for ODA, particularly for the poorer countries.

41. Major donors have recently reaffirmed the importance they place on reaching the poorest countries.[22] Nevertheless, the present flow of concessional resources to these countries tends to be less than is widely considered desirable. For example, total flows to the least developed countries have consistently been less, for the donor countries as a group, than the target of 0.2 per cent of their GNP. Similarly, the international community has relatively recently reached agreement on the means of addressing the longstanding external debt problems of the poorest countries, but the full amount of the resources estimated to be required to implement the Heavily Indebted Poor Countries Initiative have not yet been secured. Equally, the volume of resources mobilized for successive replenishments of IDA in recent years has been less than proposed.

42. The General Assembly may wish to consider means of addressing these and other dichotomies between the international community's views regarding development needs and priorities and the present pattern of global resource flows.

Notes

[1] A/52/3; to be issued as *Official Records of the General Assembly, Fifty-second Session, Supplement No. 3* (A/52/3/Rev.1), chap. II.

[2] See *World Economic and Social Survey, 1997* (United Nations publication, Sales No. E.97.II.C.1 and Corr.1), chaps. I and II.

[3] An important caveat: if deficit reduction is brought about in such a way as to cause aggregate income to contract or stagnate, private saving will fall and the net effect of the fiscal contraction on total domestic savings would be smaller than otherwise (for an analysis of the practice of fiscal reform, see *World Economic and Social Survey, 1997* ..., part two).

[4] See, for example, Masao Ogaki, Jonathan Ostry and Carmen Reinhart, "Saving behaviour in low- and middle-income developing countries", IMF Working Paper 95/3, January 1995.

[5] According to United Nations population projections, this ratio in developing countries will decline from 39.1 per cent in 1995 to 37.8 per cent in 2000 and 36.1 per cent in 2005 (see *World Population Prospects: The 1996 Revision*, annex II (forthcoming)).

[6] These are aggregate flows, not ODA flows, which are far less, as discussed below; also the data presented in this section are on a national-accounts basis, not a balance-of-payments basis.

[7] See *World Economic and Social Survey, 1997* ..., tables A.5 (national-accounts basis) and A.26 (balance-of-payments basis).

[8] See Organisation for Economic Cooperation and Development, *Global Capital Shortages: Real Threat or Pure Fiction* (Paris, OECD, 1996).

[9] Data in this section are drawn, unless otherwise noted, from *World Economic and Social Survey, 1997* ..., and conform with the country groupings used in the *Survey*.

[10] See World Bank, *Global Development Finance, 1997*, vol. I (Washington, D.C., 1997), p. 6. The World Bank defines low-income countries as having GNP per capita of $765 or less in 1995 and middle-income countries as having GNP per capita of $766 to $9,385.

[11] National authorities of some countries provide similar facilities, such as the Overseas Private Investment Corporation of the United States.

[12] Emergency programmes increased from 2 per cent of ODA in 1990 to 12 per cent in 1995 (see Development Assistance Committee, *Development Cooperation, 1996 Report* (Paris, OECD, 1996), pp. 97-98).

[13] Based on 1995 data (see *World Economic and Social Survey, 1997* ..., table A.32).

[14] For a discussion of recent developments in international assistance for these countries, see United Nations Conference on Trade and Development, *The Least Developed Countries, 1997 Report* (United Nations publication, forthcoming).

[15] See, in this regard, the agreed conclusions of the High-level Segment of the Substantive Session of 1997 of the Economic and Social Council (E/1997/L.56).

[16] See Report of the Secretary-General on the debt situation of the developing countries as at mid-1997 (A/52/290).

[17] Government bills and notes are examples of such financing in a wide range of countries; commercial paper issues by large corporations are mainly found in the markets of developed countries and, like government securities, may be traded internationally.

[18] See, for example, Maxwell Fry, "In favour of financial liberalization", *The Economic Journal*, No. 107, May 1997, pp. 754-770.

[19] See report of the Secretary-General entitled "Global financial integration: an update" (A/52/406), sect. IV.

[20] See Microcredit Summit Declaration and Plan of Action, Washington, D.C., 2-4 February 1997 (published in *World Bank News*, 6 February 1997, pp. 1-2).

[21] See Development Assistance Committee, *Shaping the 21st century: the contribution of development cooperation* (Paris, OECD, May 1996).

[22] See, for example, Final Communiqué of the Denver Summit of Eight, Denver, 22 June 1997, para. 59.

United Nations A/52/400

General Assembly

Distr.: General
29 September 1997

Original: English

Fifty-second session
Agenda item 99 (b)
Operational activities for development: economic and technical cooperation among developing countries

Cooperation between the United Nations and the Southern African Development Community

Report of the Secretary-General

I. Introduction

1. In its resolution 50/118 of 20 December 1995, the General Assembly commended Member States and organs, organizations and bodies of the United Nations system that had maintained, enhanced and initiated development cooperation with the Southern African Development Community (SADC) and called upon those that had not yet established contact and relationships with the Community to explore the possibility of doing so. The Assembly requested the Secretary-General, in consultation with the Executive Secretary of SADC, to continue to intensify contacts aimed at promoting and harmonizing cooperation between the United Nations and the Community, and to report to it at its fifty-second session on the implementation of the resolution.

2. Pursuant to that resolution, the Secretary-General addressed a note verbale dated 10 April 1997 to the Governments of the States Members of the United Nations requesting information on specific measures undertaken in implementation of the resolution. He also dispatched letters dated 7 April 1997 to the relevant organizations and bodies of the United Nations requesting them to submit their contributions for the preparation of his report.

3. The present report is based on the information received from Member States and United Nations organizations and bodies as at 30 September 1997. Any further replies received will be incorporated in an addendum to the report.

II. Cooperation between the United Nations and the Southern African Development Community

A. Action taken by Member States

1. Austria

4. Southern Africa is one of the target regions of Austria's development cooperation programme, and Austria has intensified its bilateral relations with seven SADC countries, both in political terms and in terms of economic and development cooperation. Austria is cooperating with Mozambique in the implementation of projects in the areas of democratization, agriculture and water management and in the development of small and medium-size enterprises. It is assisting Namibia in the areas of democratization and the development of small and medium enterprises as well as

97-25797 (E) 141097 151097

Zimbabwe in the latter area. It is financing a special programme on local government in South Africa and collaborates with the SADC region as a whole in the development of railways and small and medium enterprises.

5. At the level of the European Union (EU), Austria actively supports cooperation with SADC within the EU Common Foreign and Security Policy, which enhanced its development programme with SADC to include political dialogue, regional integration, trade and investment following the first SADC/EU Ministerial Conference (Berlin, 5 and 6 September 1994), and marked a turning point in relations between the two regions. The second SADC/EU Ministerial Conference (Windhoek, 14 and 15 October 1996) endorsed a joint institutional framework that is being implemented through concrete activities. Austria will host the third SADC/EU Ministerial Conference, which is scheduled to take place in Vienna on 10 and 11 November 1998.

2. Ecuador

6. Ecuador fully supports the activities being planned and undertaken for the development of southern Africa and is interested in establishing diplomatic and commercial ties of mutual benefit with the region.

3. Germany

7. Total assistance provided by Germany to SADC amounted to approximately US$ 400.4 million in 1995 and $295.4 million in 1996. Of this amount, approximately $631 million was extended in bilateral assistance to SADC member countries for projects in agriculture, education, infrastructure development and water and sanitation. In addition, Germany has supported the decentralization programme in South Africa, and the consolidation of democratization in Mozambique, and has increased its cooperation with Namibia.

8. Germany provided approximately $20.4 million in 1995-1996 for regional integration programmes for SADC at the regional level in the areas of human resources development and capacity-building, agriculture and natural resources development and trade promotion. It also extended some $44.9 million in 1995-1996 for drought alleviation, food aid and famine prevention.

9. In addition to its bilateral assistance, Germany contributed approximately 3 billion deutsche marks to the assistance provided to SADC by EU, which amounted to some DM 11 billion from 1976 to 1995.

4. Norway

10. In addition to contributing to development cooperation initiatives for SADC at the Nordic regional level, Norway provides bilateral assistance both to SADC as a regional organization and to its member countries. In 1996, Norway allocated approximately $12 million and has pledged some $11 million for 1997 for projects in economic development, natural resources management, strengthening of democratic institutions, social service and human resources development, and social services. Malawi, Mozambique, the United Republic of Tanzania, Zambia and Zimbabwe are given priority in Norway's development cooperation with the SADC region.

11. As a result of the ending of apartheid in South Africa and its becoming a member of SADC, conflict prevention has become an important area of cooperation. Norway is funding a conflict prevention and conflict resolution project entitled "Training for Peace", which is coordinated by the Norwegian Research Institute. The project, to be implemented from 1995 to 1999, is aimed at capacity-building in the field of conflict management. Planning and implementation for the project is being carried out in cooperation with the Government of South Africa, the United Nations and the Organization of African Unity, as well as the International Peace Academy. The project's budget of approximately $1.5 million has been increased by 25 per cent by the Norwegian Government.

5. Spain

12. Spain signed a treaty of cooperation with SADC in 1995 and has entered into cooperation agreements with Angola, Mozambique, Namibia and South Africa in the areas of education and training, health, infrastructure development, energy, institution-building, emergency and food aid and research. Cooperation in those priority areas is being implemented through technical cooperation offices in Angola, Mozambique and Namibia, which are run by the Spanish Agency for International Cooperation.

13. Spain's principal regional cooperation projects include the rehabilitation of railway corridors in Angola and Mozambique; research into an effective malaria vaccine, vocational training in the fisheries industry and rehabilitation and national reconstruction programmes in Angola; and a demobilization and police reform programme in Mozambique, which are funded jointly with the United Nations Development Programme (UNDP). Spain's contributions to the region for the years 1995 and 1996 amounted to approximately 5,964,000 pesetas.

6. Sweden

14. Sweden has given priority to the southern African region in its development cooperation programme for many years. Over one third of its total bilateral aid has been directed to the region, amounting to 1.8 billion Swedish kronor for 1995-1996. Sweden's assistance for regional cooperation in Africa amounted to Skr 120 million in 1996 and Skr 125 million in 1997.

15. Programmes and projects in the field of environmental preservation and regional cooperation in the use of scarce water resources as a conflict prevention measure have been given increased priority in the SADC region. Culture and media are a relatively new sector of cooperation.

16. In addition to the above-mentioned areas of cooperation, Sweden actively participates in the ongoing political dialogue with SADC at the Nordic regional level and as a member of EU.

7. Thailand

17. Thailand contributed $10,000 for food assistance in 1995 to help alleviate the effects of the 1994 drought and $10,000 in 1996 for disaster relief to Lesotho.

18. In 1996, under the auspices of the annual international training courses organized by the Department of Technical and Economic Cooperation of Thailand, three participants from Botswana attended a course on agriculture and social development; seven participants from Zambia attended the agriculture, public health, science, technology, environment and social development course; and two participants from Zimbabwe attended the public health course at a total cost of 3.126 million baht (approximately 25.50 baht = US$ 1).

B. Action taken by the United Nations system

1. Department for Development Support and Management Services[1]

19. The Department is working with SADC countries to set up mechanisms of cooperation by providing technical support and advisory services in the area of shared water resources in the region. Such support has been provided to Angola, Botswana and Namibia with regard to development of the Okavango basin and to Swaziland to assess the resources and needs of the Usutu/Maputo river basin, which straddles Mozambique, South Africa and Swaziland. The Department has also assisted the United Republic of Tanzania and Zimbabwe in the preparation of sector strategies and basin-planning initiatives.

20. In addition, the Department has assisted individual countries of the region in the economic and social development areas.

2. Department for Economic and Social Information and Policy Analysis[1]

21. The Department has cooperated in implementing projects related to population and housing censuses in Mozambique, South Africa and Zimbabwe and in strengthening economic statistics and national accounting in Mozambique and Namibia.

3. Office of the United Nations High Commissioner for Refugees

22. The memorandum of understanding of July 1996 entered into by SADC and the Office of the United Nations High Commissioner for Refugees (UNHCR) addressed the common features of refugee movements in the SADC region. The memorandum calls for a shared approach by the SADC member States and UNHCR, at the regional level, to the problem of irregular movement of refugees and the harmonization of protection and assistance for asylum seekers. A series of consultations have been initiated with the Governments of the region on irregular migration and refugee-related issues.

4. International Fund for Agricultural Development

23. The International Fund for Agricultural Development (IFAD) has assisted in the development of infrastructure linking small farmers to national and international markets and in small-scale resource management in marginal areas in the SADC countries. In February 1996, the IFAD and SADC secretariats organized a workshop on approaches to rural poverty alleviation in SADC countries, which focused on smallholder development in the region. Since 1978, IFAD has assisted in 36 projects and programmes in the SADC countries costing $869 million, to which IFAD contributed $386 million.

[1] Pursuant to the programme for reform of the Secretary-General, the Department for Development Support and Management Services and the Department for Economic and Social Information and Policy Analysis, as well as the Department for Policy Coordination and Sustainable Development, have been merged into a new Department of Economic and Social Affairs.

5. United Nations Environment Programme

24. A joint United Nations Environment Programme (UNEP)/SADC initiative on strengthening national and subregional capacities for environmental data and information management is currently under way. UNEP has assisted in building the capacity of SADC member countries in the development and management of groundwater resources, the strengthening of environmental law and the integration of related legislation in economic and social development programmes.

6. International Monetary Fund

25. The International Monetary Fund (IMF) has continued to support the regional economic integration efforts of the SADC countries in the context of annual consultations on article IV of the IMF Articles of Agreement, the provision of concessional assistance from the Enhanced Structural Adjustment Facility for structural adjustment programmes and technical assistance aimed at capacity-building in critical areas of macroeconomic policy. Malawi, Mozambique, the United Republic of Tanzania and Zambia are presently implementing structural adjustment programmes with the support of the Fund's concessional Enhanced Structural Adjustment Facility resources.

26. In its policy dialogue with SADC countries, IMF has promoted the process of regional market integration by assisting with the design of liberalization programmes for their foreign trade and exchange systems and their domestic financial sectors. In addition, through the cross-border initiative sponsored by IMF, the African Development Bank and the EU Commission, the Fund has fostered regional as well as multilateral trade liberalization in the SADC countries and has helped in harmonizing the scope and pace of economic reform in the countries of the region. Malawi, Mauritius, Namibia, Swaziland, the United Republic of Tanzania, Zambia and Zimbabwe are already participating in the cross-border initiative, and other SADC countries are welcome to join in the initiative.

27. With regard to institutional cooperation between SADC and IMF, high-level contacts with the SADC secretariat are held at regular intervals, and the Fund participates in consultative conferences and technical meetings of the SADC secretariat. Both institutions are reviewing areas in which specific IMF assistance could be beneficial.

7. World Bank

28. In addition to direct lending, including adjustment lending and coordination of aid flows to SADC member States, the World Bank continued to provide technical assistance in the development of power and energy resources and in the development of the Maputo Corridor project, a vital regional transportation link. Close interaction with SADC was maintained in the finalization of its trade protocol, ratified in 1996. SADC has been actively involved in the evolution of the cross-border initiative to promote regional integration through creating a policy and institutional framework for efficient production and trade.

29. As in previous years, the World Bank continues to participate in the annual conferences of SADC. In April 1997, consultations were held with SADC officials in Washington, D.C., on broadening the Bank's programme of assistance. The focus of the proposed strategy is the development of vital infrastructure, such as the Maputo Corridor (between Mozambique, South Africa and Swaziland) and the Northern Corridor (between Malawi and Mozambique) in the transportation sector, power and energy development and the development of river basins. The World Bank will assist in the technical aspects of those projects. It will also provide direct investment lending to the concerned SADC member countries and facilitate foreign direct investment through guarantees. It is also assisting in the initiative for the integration of regional payment systems, in order to promote trade flows. The Bank has agreed to assist in the implementation of the SADC trade protocol. Two major studies, on trade and tax reform and on maize prices, are to be undertaken in the near future to continue the Bank's assistance in facilitating efficient trade flows among the SADC countries.

8. United Nations Children's Fund

30. Following the 1994 SADC symposium on the implementation of the national programmes of action for children in the member States, which was supported by the United Nations Children's Fund (UNICEF), the two organizations have continued to hold periodic consultations on issues concerning children in the subregion. UNICEF also participates in the annual SADC Consultative Conference.

31. UNICEF cooperation in the subregion is largely country-based, driven by country cooperation programmes, given that SADC regional institutions and mechanisms are concentrated primarily outside the social development sectors. UNICEF has continued to support and cooperate in national programmes to benefit children and women. These include prevention of acquired immunodeficiency syndrome,

the Sara regional communication initiative in support of girls' education, post-war rehabilitation, capacity-building for social development, monitoring and advocacy for children, drought mitigation and disaster preparedness. In 1996, UNICEF supported the production and publication of a wide-ranging analysis by southern African researchers of the needs and opportunities for children in the post-apartheid period, entitled "Transcending the Legacy".

9. United Nations Industrial Development Organization

32. The United Nations Industrial Development Organization (UNIDO) is assisting SADC in the preparation of an industrial development strategy focusing on the harmonization of industrial policies, competitiveness, trade liberalization and regional cooperation.

33. UNIDO is assisting the United Republic of Tanzania in assessing the environmental impact of gold mining, in introducing cleaner technologies for improved gold recovery and in a programme to enhance women's involvement in the food-processing sector. In addition, it is assisting Malawi and Zambia to improve the processing of hides and skins and to improve the footwear and leather goods industries, and Malawi, Mozambique, Zambia and Zimbabwe in establishing quality control systems.

10. United Nations Institute for Training and Research

34. The United Nations Institute for Training and Research and the SADC secretariats have cooperated in the organization of a regional training workshop on new technologies of information and communication to combat desertification. They are also preparing a joint desertification information system training and capacity-building programme at both the regional and national levels, and organized the third AFRICAGIS conference to promote the development and use of geographic information systems for African scientists (Gaborone, 23-27 June 1997).

11. World Meteorological Organization

35. The World Meteorological Organization collaborated closely with the SADC Southern African Transport and Communications Commission to develop programmes aimed at strengthening national meteorological and hydrological services. It also continued to implement the UNDP Drought Monitoring Centre programme, based in Harare, for which the Government of Belgium has contributed $2.5 million; and it has cooperated with the SADC water sector in the implementation of the SADC hydrological cycle observing system project, which is funded by EU at a total cost of $2.5 million.

12. World Food Programme

36. Through its regional field office in Maputo and field units in Angola, Malawi and Zambia, the World Food Programme (WFP) works closely with SADC countries to improve early warning systems and to develop response mechanisms targeting food assistance to vulnerable groups to mitigate the effects of natural disasters. WFP also plays an advisory role in the region by providing information and analysis on regional market indicators related to food security.

37. WFP is currently providing emergency assistance in Angola, Malawi and Mozambique, implementing ongoing relief operations and providing development assistance to Angola, Lesotho, Malawi, Mozambique and Zambia. During 1996, WFP purchased food commodities for approximately $39 million in the southern African region through cash donations from donors such as EU, Germany, Japan, the Netherlands and the United Kingdom of Great Britain and Northern Ireland for distribution in emergency situations in Africa and other regions.

13. World Intellectual Property Organization

38. During the period under review, the World Intellectual Property Organization (WIPO) continued its cooperation with SADC countries by providing advisory services and organizing training seminars for the development of copyright and patent regulation and legislation. In this regard, WIPO granted training fellowships to some 100 government officials from each of the 12 SADC countries, including 2 from the SADC secretariat.

39. WIPO organized a seminar on industrial property in Luanda in March 1996 and another in Maputo in November 1996, and provided advisory services and training to the Government of Botswana on the drafting of industrial property legislation and on accession to the Patent Cooperation Treaty. WIPO conducted a training course for the Copyright Society of Malawi on the practical aspects of the collective administration of copyright in November 1995 and another on the same topic for officials from Lesotho, Namibia and Zambia in Lilongwe in June 1996. It also provided advisory services to the Government of Malawi on the compatibility of the country's industrial property legislation with relevant international agreements. WIPO provided advice to the Government of Mauritius on the drawing up of its industrial property, copyright and trademark administration legislation.

14. Economic Commission for Africa

40. Through its subregional development centre in Lusaka, the Economic Commission for Africa (ECA) provided advisory services and cooperated in a survey to assess skill deficiencies in the subregion with the SADC Mining Sector Coordinating Unit and its Human Resources Development Subcommittee. The findings and recommendations of the survey are to be included in the SADC mining protocol, which is currently under consideration. ECA also undertook a study on the integration of South Africa into southern Africa's mining sector. Similarly, ECA cooperated in the formulation of the SADC regional energy policy and strategy, which was approved by the SADC energy ministers in 1996, and in reviewing the South African white paper on energy policy.

41. In the labour sector, ECA undertook two studies, one on emerging issues in the labour market, employment and training in the SADC region in the 1990s, and the second on labour market integration in southern Africa. ECA is also cooperating with the development of the SADC mechanisms for food security and drought mitigation.

15. Department of Public Information

42. During the period under review, United Nations information centres in the region launched information programmes on the United Nations System-wide Special Initiative on Africa, the United Nations New Agenda for the Development of Africa in the 1990s, and the UNDP *Human Development Report* by organizing press conferences, briefings and symposia for the media and non-governmental organizations and by disseminating information through the print media, radio and television. A regional forum on poverty eradication in southern Africa was held in Windhoek in May 1997. The Department continued to publish several information and press kits on issues relevant to Africa and gave wide dissemination to United Nations programmes related to Africa, including the publication *Africa Recovery*.

16. Food and Agriculture Organization of the United Nations

43. The Food and Agriculture Organization of the United Nations (FAO) continued to strengthen its cooperation with the SADC Food Security Technical and Administrative Unit, based in Harare, and assisted the SADC Centre of Communication for Development. The joint SADC/FAO high-level consultation on food security information systems (Harare, 9-12 July 1996) addressed information needs on food security at both the national and regional levels, including expansion of the regional food security database and intensified analysis of food security information. In January 1997, FAO organized a workshop in Harare on the Uruguay Round Agreement and implications for agriculture and food security for the SADC region. FAO presented a paper on food security information systems: concepts and issues at the SADC Conference on Developing Food Security Strategies (Harare, March 1997), and is participating in a series of SADC in-house training seminars in Harare under the auspices of the SADC Food Security Training Project financed by EU.

44. The SADC project on the control of ticks and tick-borne diseases and the Regional Training Centre for Middle-Level Personnel for the Control of Tsetse and African Animal Trypanosomiasis, implemented by FAO, were recently concluded. FAO assisted in the establishment of the remote-sensing component of the SADC Early Warning System, a regional project for a network for on-farm seed production and seed security and projects on household food security information systems in four SADC countries.

17. International Civil Aviation Organization

45. The technical cooperation programme of the International Civil Aviation Organization (ICAO) continues to assist the SADC countries in the development of their civil aviation facilities. The ICAO technical programme budget was $2 million in 1996 and $2.8 million in 1997, with approximately 80 per cent of the funds being provided by the Governments themselves. In addition to that programme, ICAO developed 18 country and 5 regional projects, which have been submitted to donors for funding.

18. Universal Postal Union

46. Within the framework of its technical assistance programme to the countries of the SADC subregion, the Universal Postal Union organized a training activity for postal operators in human resource planning and training (Blantyre, Malawi, 23-27 June 1997).

The actions to be taken by the General Assembly at its fifty-second session as set out in paragraph 24 of the present report are: (a) the revision of the appropriation already approved under the terms of resolution 51/3 C from $20,447,100 gross ($18,918,300 net) to $8,952,900 gross ($8,434,900 net) for the operation of the Observer Mission for the period from 1 July 1997 to 30 June 1998; and (b) the assessment of an additional amount of $3,841,125 gross ($3,705,325 net), taking into account the amount of $5,111,775 gross ($4,729,575 net) already authorized and assessed under the terms of resolution 51/3 C for the period from 1 July to 30 September 1997.

Contents

		Paragraphs	*Page*
I.	Introduction	1 - 2	5
II.	Political mandate	3 - 4	5
III.	Operational plan and requirements	5 - 11	5
IV.	Financial administration	12 - 16	7
	A. Financial period	12	7
	B. Resources made available and operating costs for the period from inception to 30 June 1998	13	7
	C. Status of assessed contributions	14	7
	D. Voluntary contributions and trust funds	15 - 16	7
V.	Revised cost estimates for the period from 1 July 1997 to 30 June 1998	17 - 21	7
VI.	Staffing requirements	22	8
VII.	Observations and comments on previous recommendations of the Advisory Committee on Administrative and Budgetary Questions	23	9
VIII.	Action to be taken by the General Assembly at its fifty-second session	24	10

Page

Annexes

I. Revised cost estimates for the period from 1 July 1997 to 30 June 1998 11

II. Supplementary information on the revised cost estimates for the period form 1 July 1997 to 30 June 1998 15

A. Mission-specific costs and ratios 15
B. Requirements for non-recurrent costs 19
C. Supplementary explanation 25

III. Proposed liquidation tasks for the period beyond 31 December 1997 29

IV. Current and proposed staffing table 31

V. Resources made available and operating costs for the period from inception to 30 June 1998 as at 31 August 1997 35

VI. Voluntary and trust fund contributions 37

A. Voluntary contributions 37
B. Trust fund contributions 37

I. Introduction

1. The United Nations Observer Mission in Liberia (UNOMIL) was established by the Security Council by its resolution 866 (1993) of 22 September 1993 under its authority and under the direction of the Secretary-General through his Special Representative for an initial period of seven months in support of the implementation of the Cotonou Agreement in Liberia. The mandate of UNOMIL has since been extended and adjusted by the Security Council in subsequent resolutions, the latest being resolution 1116 (1997) of 27 June 1997, by which the Council extended the mandate of the Observer Mission for a period of three months, from 1 July to 30 September 1997, in the expectation that it would terminate on that date.

2. In its resolution 51/3 C of 13 June 1997, the General Assembly appropriated the amount of $20,447,100 gross ($18,918,300 net) for the maintenance of the Observer Mission for the period from 1 July 1997 to 30 June 1998, inclusive of the amount of $758,700 for the support account for peacekeeping operations, to be assessed at a monthly rate of $1,703,925 gross ($1,576,525 net), subject to the decision of the Security Council to extend the mandate of the Observer Mission beyond 30 June 1997.

II. Political mandate

3. The mandate that had been entrusted to the Observer Mission by the Security Council in its resolution 866 (1993) and adjusted by it in resolution 1020 (1995) of 10 November 1995 was outlined in paragraphs 5 and 6 of the report of the Secretary-General of 12 March 1996 (A/50/650/Add.3).

4. In a letter dated 24 July 1997 addressed to the President of the Security Council (S/1997/581), the Secretary-General informed the Council of the successful completion of the electoral process in Liberia, which constituted the final element of the revised schedule on implementation of the Abuja Agreement (S/1995/742, annex). Subsequently, in his report to the Security Council of 13 August 1997 (S/1997/643), the Secretary-General informed the Council, *inter alia*, that in keeping with Council resolution 1116 (1997), the mandate of UNOMIL would expire on 30 September 1997. As stated in that report, the Secretary-General would submit a final report to the Security Council on UNOMIL (S/1997/712 of 12 September 1997), containing an account of developments in Liberia since the last report and including an update on discussions relating to Liberia taken at the summit meeting of States members of the Economic Community of West African States (ECOWAS), held at Abuja on 28 and 29 August 1997.

III. Operational plan and requirements

5. The operational plan of the Observer Mission, which has now been completed, was previously outlined in paragraphs 11 and 12 of the report of the Secretary-General of 4 February 1997 (A/50/756/Add.1). The present report provides *inter alia*, for the maintenance and withdrawal of the Observer Mission from 1 July to 30 September 1997, the liquidation requirements from 1 October to 31 December 1997 and the completion of residual administrative tasks for the period beyond 31 December 1997.

Special programmes

1. Disarmament and demobilization

6. During the official period of disarmament and demobilization from 22 November 1996 to 9 February 1997, a total of 20,332 fighters out of an estimated total of 33,000 were disarmed. Also, a total of 21,315 fighters, including 4,306 child fighters under the age of 18 and 250 adult female fighters, were demobilized by the Humanitarian Assistance Coordination Unit. In addition, more than 9,570 weapons and 1.2 million pieces of ammunition were surrendered. Subsequent to the official period of disarmament and demobilization, UNOMIL collected 89 weapons and 244 pieces of ammunition while the ECOWAS Military Observer Group (ECOMOG) collected 3,750 assorted weapons and 152,500 pieces of ammunition.

2. Humanitarian assistance

7. All 13 counties in Liberia are now accessible to the humanitarian assistance community. However, the major challenge facing humanitarian agencies is the repatriation of the estimated 660,000 refugees in the subregions and the resettlement of 750,000 internally displaced persons. The United Nations consolidated inter-agency appeal for Liberia totalling $31,235,149 was launched in December 1996 for priority humanitarian intervention. As at 22 August 1997 an amount of $7,893,471 had been received in pledges and contributions.

3. Elections

8. In his report to the Security Council of 19 June 1997 (S/1997/478), the Secretary-General informed the Council, *inter alia*, that at an extraordinary summit meeting of the ECOWAS Committee of Nine on Liberia held in Abuja on 21 May 1997 agreement had been reached on extending the date for the elections from 30 May to 19 July 1997. The summit meeting also agreed that the new Government would be inaugurated on 2 August 1997. However, should a run-off election become necessary, it would be held on 2 August 1997 with the inauguration of the new Government to take place on 16 August 1997.

9. Subsequently, in his report to the Security Council of 13 August 1997 (S/1997/643), the Secretary-General informed the Council that the Liberian peace process had come to a successful conclusion with the holding of presidential and legislative elections on 19 July 1997, as scheduled. In addition, a new Government had been installed on 2 August 1997.

10. As agreed by the Advisory Committee, the requirements of UNOMIL for the electoral process in Liberia in the amount of $3,273,800 gross ($3,233,000 net) were met from the existing resources provided to the Observer Mission for the period from 1 July 1996 to 30 June 1997 and will be reported on in the context of the related performance reports.

Post-Observer Mission United Nations presence

11. In his final report to the Security Council on UNOMIL, dated 12 September 1997 (S/1997/712), the Secretary-General proposed the establishment of a small United Nations office in Liberia following the withdrawal of UNOMIL. The head of the office would be the focal point for post-conflict peace-building activities of the United Nations in Liberia and have overall authority for coordination of the United Nations system in the country. In a statement to the press, the President of the Security Council took note of the intention of the Secretary-General to maintain an office in Liberia.

IV. Financial administration

A. Financial period

12. The financial period covers 12 months beginning on 1 July of one year and terminating on 30 June of the following year, in accordance with section I of General Assembly resolution 49/233 A of 23 December 1994.

B. Resources made available and operating costs for the period from inception to 30 June 1998

13. Resources of $153,874,313 gross have been made available for the operation of the Observer Mission from inception on 22 September 1993 to 30 June 1998, as set forth in annex V. Of that amount, credits returned to Member States amounted to $34,039,700 gross. The estimated expenditures amount to $119,834,700 gross.

C. Status of assessed contributions

14. As at 31 August 1997, a total of $115,079,147 had been assessed on Member States for the period from inception (22 September 1993) to 30 September 1997. Contributions received for that period amounted to $96,625,300, resulting in a shortfall of $18,453,847.

D. Voluntary contributions and trust funds

15. The General Assembly, in paragraph 9 of its resolution 51/3 C, invited voluntary contributions from Member States to UNOMIL both in cash and in the form of services and supplies acceptable to the Secretary-General. No voluntary contributions have been received to date.

16. The Secretary-General established the Trust Fund for the Implementation of the Cotonou Agreement in Liberia on 23 September 1993 to receive voluntary contributions from Member States for the purposes of: (a) deployment and maintenance of ECOMOG troops, (b) disarmament and demobilization, (c) humanitarian assistance and (d) elections. As at 31 August 1997, total contributions received amounted to $25,570,894, donated by Denmark ($294,616), Egypt ($10,000), France ($679,612), Japan ($809,000), the Netherlands ($261,584), Norway ($291,056), Switzerland ($34,626), the United Kingdom of Great Britain and Northern Ireland ($1 million) and the United States of America ($22,190,400). Expenditure totalling $25,574,481 had been authorized including $23,676,011 for the deployment and maintenance of ECOMOG troops, $1,047,595 for humanitarian assistance and $624,875 for elections. Information on the contributions to the trust fund is provided in tabular form in annex VI.B.

V. Revised cost estimates for the period from 1 July 1997 to 30 June 1998

17. The present report contains the proposed requirements for the liquidation of the Observer Mission, which includes the cost of withdrawal, the cost of the administrative closing of the Observer Mission and the cost of the completion of residual administrative tasks.

18. The total revised estimated cost for the operation of the Observer Mission for the period from 1 July 1997 to 30 June 1998 amounts to $8,952,900 gross ($8,434,900 net), as shown in annex I, column 6, representing a decrease of $11,494,200 gross ($10,483,400 net) from the $20,447,100 gross ($18,918,300

net) provided by the General Assembly under its resolution 51/3 C. The reduction in resource requirements is attributable to the successful completion of the responsibilities of the Observer Mission and its consequent liquidation. Some 49 per cent of the total revised budget is based on standard ratios and standard costs contained in the standard ratios/costs manual, while 51 per cent covers mission-specific costs. These mission-specific costs and ratios are described in annex II.A.

19. As indicated in paragraph 10 above, the Advisory Committee on Administrative and Budgetary Questions, by a letter dated 14 July 1997, authorized the Secretary-General to utilize an amount not exceeding $3,273,800 gross from existing resources that were approved for the period from 1 July 1996 to 30 June 1997 in connection with the electoral process in July 1997. Therefore, this revised budget does not provide for election-related requirements.

20. For comparison purposes, the previous resources approved for the period from 1 July 1997 to 30 June 1998 amounting to $20,447,100 gross ($18,918,300 net) are shown in annex I, column 1. The cost of maintaining UNOMIL for the month of July 1997 amounting to $2,728,100 gross ($2,602,900 net) is shown in column 2, the cost of withdrawal of the Observer Mission, amounting to $3,980,500 gross ($3,761,700 net), in column 3, the cost of the administrative closing of the Mission, amounting to $2,072,400 gross ($1,911,700 net), in column 4, and the cost of residual administrative tasks, amounting to $171,900 gross ($158,600 net), in column 5.

21. Information on the revised cost estimates is presented in annex II.A, which shows mission-specific cost and ratios. Non-recurrent requirements are provided in annex II.B. A supplementary explanation of the revised cost estimates is provided in annex II.C.

VI. Staffing requirements

22. The current and proposed staffing as shown in the table below and in annex IV reflects the reduction and redeployment of the authorized posts to give emphasis to the settlement of claims during the liquidation period. As a result, a resident auditor (P-4) was added beginning on 15 August 1997 and the Office of the Chief Administrative Officer was strengthened by the transfer of the Legal Officer (P-3), the Claims Officer (P-3) and the Logistics Officer (P-4). The revised budget provides for the withdrawal of 80 international civilian personnel, 7 United Nations Volunteers and 146 local staff. The withdrawal of civilian personnel is on a phased reduction basis. The detailed breakdown of the staffing table is contained in annex IV.

Table
Current and proposed staffing

	Authorized staffing (A/51/756/Add.2)	Proposed staffing requirements						
		Maintenance period	Withdrawal period 1997		Administrative closing period 1997			After 31 December 1997
		1 July 1997	1 August	1 September	1 October	1 November	1 December	(person/months)
Under-Secretary-General	1	1	1	1	—	—	—	—
Assistant Secretary-General	—	—	—	—	—	—	—	—
D-2	2	1	1	1	—	—	—	—
D-1	1	1	1	1	1	1	1	—
P-5	2	1	—	—	—	—	—	—
P-4	9	8	9	9	5	4	2	4
P-3	12	9	9	7	6	5	2	—
P-2/P-1	—	6	5	1	—	—	—	—
General Service (Principal level)	3	2	1	—	—	—	—	—
General Service (Other level)	16	11	10	10	8	7	7	—
Field Service	43	38	37	32	26	17	15	4
Security Services	—	2	2	2	1	1	1	—
Subtotal	**89**	**80**	**76**	**64**	**47**	**35**	**28**	**8**
Local staff	155	146	145	100	56	56	43	—
United Nations Volunteers	13	7	4	1	—	—	—	—
International contractual personnel	—	—	—	—	—	—	—	—
Total	**257**	**233**	**225**	**165**	**103**	**91**	**71**	**8**

VII. Observations and comments on previous recommendations of the Advisory Committee on Administrative and Budgetary Questions

23. The Advisory Committee on Administrative and Budgetary Questions, in paragraph 8 of its report on the financing of UNOMIL dated 8 May 1997 (A/51/423/Add.2), requested that, in the event that the Mission was liquidated after 30 June 1997, adequate personnel should be made available to carry out the liquidation process efficiently. In this connection, the current requirements for the cost of administrative closing and the completion of residual administrative tasks take into account this recommendation of the Advisory Committee.

VIII. Action to be taken by the General Assembly at its fifty-second session

24. The actions to be taken by the General Assembly at its fifty-second session in connection with the financing of UNOMIL are as follows:

(a) The revision of the appropriation already approved under the terms of General Assembly resolution 51/3 C, from $20,447,100 gross ($18,918,300 net) to $8,952,900 gross ($8,434,900 net) for the operation of the Observer Mission for the period from 1 July 1997 to 30 June 1998;

(b) The assessment of an additional amount of $3,841,125 gross ($3,705,325 net), taking into account the amount of $5,111,775 gross ($4,729,575 net) already authorized and assessed under the terms of resolution 51/3 C for the period from 1 July to 30 September 1997.

Annex I
Revised cost estimates for the period from 1 July 1997 to 30 June 1998

(Thousands of United States dollars)

	Original cost estimates 1 July 1997 to 30 June 1998 (1)	Revised cost estimates: Cost estimates 1 to 31 July 1997 (2)	Cost of withdrawal 1 August to 30 September 1997 (3)	Cost of administrative closing 1 October to 31 December 1997 (4)	Cost estimates after 31 December 1997 (5)	Total revised cost estimates (6 = 2+3+4+5)
1. Military personnel costs						
(a) Military observers						
Mission subsistence allowance	1 609.2	242.4	188.0	-	-	430.4
Travel costs	310.8	-	233.7	-	-	233.7
Clothing and equipment allowance	10.8	1.5	1.2	-	-	2.7
Subtotal	**1 930.8**	**243.9**	**422.9**	**-**	**-**	**666.8**
(b) Military contingents	-	-	-	-	-	-
(c) Other costs pertaining to military personnel						
Contingent-owned equipment	-	-	-	-	-	-
Death and disability compensation	40.8	40.8	-	-	-	40.8
Subtotal	**40.8**	**40.8**	**-**	**-**	**-**	**40.8**
Total, line 1	**1 971.6**	**284.7**	**422.9**	**-**	**-**	**707.6**
2. Civilian personnel costs						
(a) Civilian police	-	-	-	-	-	-
(b) International and local staff						
International staff salaries	4 402.8	354.9	622.1	496.8	46.0	1 519.8
Local staff salaries	837.6	77.9	127.7	82.7	-	288.3
Consultants	-	-	-	-	-	-
Overtime	-	-	-	-	-	-
General temporary assistance	-	-	-	-	-	-
Common staff costs	4 315.2	357.7	621.2	473.1	35.5	1 487.5
Mission subsistence allowance	2 493.6	212.0	360.7	277.2	41.1	891.0
Other travel costs	74.4	-	36.0	18.0	-	54.0
Subtotal	**12 123.6**	**1 002.5**	**1 767.7**	**1 347.8**	**122.6**	**4 240.6**
(c) International contractual personnel	-	-	-	-	-	-
(d) United Nations Volunteers						
Mission subsistence allowance	-	-	-	-	-	-
Individual service contract	698.4	34.2	19.5	-	-	53.7
Subtotal	**698.4**	**34.2**	**19.5**	**-**	**-**	**53.7**
(e) Government-provided personnel	-	-	-	-	-	-
(f) Civilian electoral observers	-	-	-	-	-	-
Total, line 2	**12 822.0**	**1 036.7**	**1 787.2**	**1 347.8**	**122.6**	**4 294.3**
3. Premises/accommodation						
Rental of premises	631.2	175.0	364.1	219.0	36.0	794.1
Alteration and renovation of premises	-	-	-	10.0	-	10.0
Maintenance supplies	24.0	-	-	-	-	-
Maintenance services	24.0	-	-	-	-	-
Utilities	279.6	72.3	91.0	56.6	-	219.9
Construction/prefabricated buildings	-	-	-	-	-	-
Total, line 3	**958.8**	**247.3**	**455.1**	**285.6**	**36.0**	**1 024.0**
4. Infrastructure repairs	-	-	-	-	-	-

	Original cost estimates 1 July 1997 to 30 June 1998 (1)	Revised cost estimates: Cost estimates 1 to 31 July 1997 (2)	Cost of withdrawal 1 August to 30 September 1997 (3)	Cost of administrative closing 1 October to 31 December 1997 (4)	Cost estimates after 31 December 1997 (5)	Total revised cost estimates (6 = 2+3+4+5)
5. Transport operations						
Purchase of vehicles	-	-	-	-	-	-
Rental of vehicles	-	6.1	-	-	-	6.1
Workshop equipment	-	-	-	-	-	-
Spare parts, repairs and maintenance	128.4	21.3	15.6	6.4	-	43.3
Petrol, oil and lubricants	174.0	29.5	21.2	8.8	-	59.5
Vehicle insurance	16.8	4.7	9.2	5.4	-	19.3
Total, line 5	319.2	61.6	46.0	20.6	-	128.2
6. Air operations						
(a) *Helicopter operations*						
Hire/charter costs	864.0	69.8	125.2	-	-	195.0
Aviation fuel and lubricants	147.6	-	-	-	-	-
Positioning/depositioning costs	-	-	45.0	-	-	45.0
Resupply flights	-	-	-	-	-	-
Painting/preparation	-	-	-	-	-	-
Liability and war- risk insurance	-	-	-	-	-	-
Subtotal	1 011.6	69.8	170.2	-	-	240.0
(b) *Fixed-wing aircraft*	-	-	-	-	-	-
(c) *Aircrew subsistence allowance*	-	-	-	-	-	-
(d) *Other air operation costs*						
Air traffic control services and equipment	-	-	-	-	-	-
Landing fees and ground handling	20.4	1.7	1.7	-	-	3.4
Fuel storage and containers	-	-	-	-	-	-
Subtotal	20.4	1.7	1.7	-	-	3.4
Total, line 6	1 032.0	71.5	171.9	-	-	243.4
7. Naval operations	:	:	:	:	:	:
8. Communications						
(a) *Complementary communications*						
Communications equipment	-	-	-	-	-	-
Spare parts and supplies	48.0	3.0	6.0	3.0	-	12.0
Workshop and test equipment	-	-	-	-	-	-
Commercial communications	660.0	55.0	81.0	93.0	-	229.0
Subtotal	708.0	58.0	87.0	96.0	-	241.0
(b) *Main trunking contract*	-	-	-	-	-	-
Total, line 8	708.0	58.0	87.0	96.0	-	241.0
9. Other equipment						
Office furniture	-	-	-	-	-	-
Office equipment	-	-	-	-	-	-
Data-processing equipment	-	-	-	-	-	-
Generators	-	-	-	-	-	-
Observation equipment	-	-	-	-	-	-
Petrol tank plus metering equipment	-	-	-	-	-	-
Water and septic tanks	-	-	-	-	-	-
Medical and dental equipment	-	-	-	-	-	-
Accommodation equipment	-	-	-	-	-	-
Refrigeration equipment	-	-	-	-	-	-
Miscellaneous equipment	-	-	-	-	-	-
Field defence equipment	-	-	-	-	-	-
Spare parts, repairs and maintenance	25.2	2.1	4.2	1.5	-	7.8
Water-purification equipment	-	-	-	-	-	-
Total, line 9	25.2	2.1	4.2	1.5	-	7.8

	Original cost estimates 1 July 1997 to 30 June 1998 (1)	Revised cost estimates: Cost estimates 1 to 31 July 1997 (2)	Cost of withdrawal 1 August to 30 September 1997 (3)	Cost of administrative closing 1 October to 31 December 1997 (4)	Cost estimates after 31 December 1997 (5)	Total revised cost estimates (6 = 2+3+4+5)
10. Supplies and services						
(a) Miscellaneous services						
Audit services	63.6	-	-	69.2	-	69.2
Contractual services	48.0	4.0	4.0	1.5	-	9.5
Data-processing services	-	-	-	-	-	-
Security services	96.0	9.8	19.7	23.9	-	53.4
Medical treatment and services	3.6	0.4	0.5	0.3	-	1.2
Claims and adjustments	12.0	1.0	2.0	1.5	-	4.5
Official hospitality	6.0	0.5	1.0	-	-	1.5
Miscellaneous other services	15.6	6.0	12.0	9.0	-	27.0
Subtotal	**244.8**	**21.7**	**39.2**	**105.4**	**-**	**166.3**
(b) Miscellaneous supplies						
Stationery and office supplies	12.0	1.0	2.0	0.6	-	3.6
Medical supplies	18.0	2.5	5.0	1.5	-	9.0
Sanitation and cleaning materials	16.8	1.6	2.3	0.9	-	4.8
Subscriptions	2.4	0.2	0.4	0.3	-	0.9
Electrical supplies	2.4	-	-	-	-	-
Ballistic-protective blankets for vehicles	-	-	-	-	-	-
Uniforms items, flags and decals	2.4	-	-	-	-	-
Field defence stores	-	-	-	-	-	-
Operational maps	-	-	-	-	-	-
Quartermaster and general stores	12.0	1.0	6.0	1.5	-	8.5
Subtotal	**66.0**	**6.3**	**15.7**	**4.8**	**-**	**26.8**
Total, line 10	**310.8**	**28.0**	**54.9**	**110.2**	**-**	**193.1**
11. Election-related supplies and services	-	-	-	-	-	-
12. Public information programmes						
Equipment	-	-	-	-	-	-
Materials and supplies	-	-	-	-	-	-
Contractual services	-	-	-	-	-	-
Department of Public Information production costs	-	-	-	-	-	-
Total, line 12	-	-	-	-	-	-
13. Training programmes	-	-	-	-	-	-
14. Mine-clearing programmes	-	-	-	-	-	-
15. Assistance for disarmament and demobilization						
(a) Rehabilitation/reintegration assistance to demobilized military forces						
Consultants	-	-	-	-	-	-
Consultants' travel	-	-	-	-	-	-
Training equipment	-	-	-	-	-	-
Training materials	-	-	-	-	-	-
Miscellaneous services	-	-	-	-	-	-
Assistance to demobilized military forces	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
(b) Provision of food, including transportation and distribution						
Rations	-	-	-	-	-	-
Transportation	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Total, line 15	-	-	-	-	-	-

	Original cost estimates 1 July 1997 to 30 June 1998 (1)	Revised cost estimates: Cost estimates 1 to 31 July 1997 (2)	Revised cost estimates: Cost of withdrawal 1 August to 30 September 1997 (3)	Revised cost estimates: Cost of administrative closing 1 October to 31 December 1997 (4)	Revised cost estimates: Cost estimates after 31 December 1997 (5)	Total revised cost estimates (6 = 2+3+4+5)
16. Air and surface freight						
Transport of contingent-owned equipment	-	-	-	-	-	-
Military airlifts	-	-	-	-	-	-
Commercial freight and cartage	12.0	54.3	732.5	50.0	-	836.8
Total, line 16	**12.0**	**54.3**	**732.5**	**50.0**	**-**	**836.8**
17. United Nations Logistics Base, Brindisi	-	-	-	-	-	-
18. Support account for peacekeeping operations	758.7	758.7	-	-	-	758.7
19. Staff assessment						
Staff assessment, international staff	1 375.2	114.2	200.8	149.1	13.3	477.4
Staff assessment, local staff	153.6	11.0	18.0	11.6	-	40.6
Total, line 19	**1 528.8**	**125.2**	**218.8**	**160.7**	**13.3**	**518.0**
Total, lines 1-19	**20 447.1**	**2 728.1**	**3 980.5**	**2 072.4**	**171.9**	**8 952.9**
20. Income from staff assessment	(1 528.8)	(125.2)	(218.8)	(160.7)	(13.3)	(518.0)
21. Voluntary contributions in kind (budgeted)	-	-	-	-	-	-
Total, lines 20-21	**(1 528.8)**	**(125.2)**	**(218.8)**	**(160.7)**	**(13.3)**	**(518.0)**
Gross requirements	20 447.1	2 728.1	3 980.5	2 072.4	171.9	8 952.9
Net requirements	18 918.3	2 602.9	3 761.7	1 911.7	158.6	8 434.9
22. Voluntary contributions in kind (non-budgeted)	-	-	-	-	-	-
Total resources	**18 918.3**	**2 602.9**	**3 761.7**	**1 911.7**	**158.6**	**8 434.9**

Annex II
Supplementary information on the revised cost estimates for the period from 1 July 1997 to 30 June 1998

A. Mission-specific costs and ratios

Description	Previous submission	Average strength	Proposed estimates: Unit or daily cost (United States dollars)	Proposed estimates: Monthly cost (United States dollars)	Ratio	Explanation
1. Mission subsistence allowance						
(a) First 30 days	120	-	120	-	-	
(b) After 30 days	85	-	85	-	-	
2. Travel costs						
Military observers	2 540	-	2 540	-	-	
International staff	2 540	-	2 540	-	-	
3. Military personnel						
Military observers	52	46	-	-	-	Phased reduction of personnel from 92 to 8 by 31 August with the remaining 8 by 30 September 1997 due to the completion of the mandate of UNOMIL.
4. Clothing and equipment allowance	17	-	17	-	-	
5. Civilian personnel						
International staff	80	53	-	-	-	Phased reduction of personnel due to the completion of the mandate of UNOMIL.
Local staff	131	91	-	-	-	*Idem.*
United Nations Volunteers	13	2	-	-	-	*Idem.*
6. Hazardous duty pay						
International staff	903	-	-	903	-	

Description	Previous submission	Average strength	Proposed estimates: Unit or daily cost (United States dollars)	Proposed estimates: Monthly cost (United States dollars)	Ratio	Explanation
Local staff	107	-	-	107	-	Based on 20 per cent of the mid-point of the local salary scale.
7. Rental of premises						
Headquarters offices	50 040	-	-	132 350	-	Increase in rent based on a new lease agreement. Three floors are being rented from July to September and one from October to December.
Workshops	2 000	-	-	1 000	-	Reduction in operation due to completion of the Mission.
Warehouses	-	-	-	4 000	-	Rental of warehouses during the withdrawal of the Mission.
Ducor Hotel	-	-	-	200	-	Rental of space for satellite equipment.
8. Vehicles						
Civilian pattern	70	53	-	-	1 vehicle:2 military observers	Reduction in operation due to completion of the Mission.
9. Spare parts, repairs and maintenance of vehicles						
Civilian pattern (each)	152	-	-	152	-	
10. Petrol						
Civilian pattern (each)	204	-	-	204	-	
11. Vehicle insurance						
Civilian pattern (each)	20	-	-	34	-	Actual charges.
12. Helicopters						
B-212	1	1	-	-	-	
MI-8	-	1	-	-	-	The contract for the B-212 and the MI-8 helicopters were terminated on 15 August 1997.

Description	Previous submission	Average strength	Proposed estimates: Unit or daily cost (United States dollars)	Proposed estimates: Monthly cost (United States dollars)	Ratio	Explanation
13. Monthly flying hours						
B-212	40	-	-	-	-	*Idem.*
MI-8	60	-	-	-	-	*Idem.*
14. Helicopter rental						
B-212	72 000	-	-	69 800	-	Based on the new contract agreement.
MI-8	-	-	-	112 500		*Idem.*
15. Helicopter fuel	12 242	-	-	-	-	The cost of fuel is included in the basic hire cost of the contract.
16. Portable communication equipment					1 military observer: 1 radio	
17. Satellite communications						
Transponder	8 000	-	-	8 000	-	
INMARSAT	27 000	-	-	14 500	-	Based on the average cost for the period. Reduction in operation due to completion of the Mission.
18. Commercial communications costs						
Telephone and telex	15 000	-	-	11 667	-	*Idem.*
Pouch, postage and other rental charges	5 000	-	-	4 000	-	*Idem.*
19. Other equipment						
Electronic data-processing equipment	-	-	-	-	1 international staff: 1 personal computer	Operational requirement.
20. Miscellaneous services						
Audit services	5 300	-	-	5 767	-	Represents the balance of the requirements for external audit, including the liquidation audit at the Mission and at Headquarters.
Contractual services	4 000	-	-	1 583	-	Based on the average cost for the period. Reduction in operation due to completion of the Mission.

Description	Previous submission	Average strength	Proposed estimates: Unit or daily cost (United States dollars)	Proposed estimates: Monthly cost (United States dollars)	Ratio	Explanation
Security services	8 000	-	-	8 900	-	Based on the current contract.
Medical treatment and services	300	-	-	188	-	Based on the standard rate of $1,000 per month for every 1 in 1,000 personnel.
Claims and adjustments	1 000	-	-	750	-	Based on the average cost for the period. Reduction in operation due to completion of the Mission.
Official hospitality	500	-	-	500	-	Provided through September 1997.
Miscellaneous other services	1 300	-	-	4 500	-	Increased requirements due to higher bank charges.
21. Miscellaneous supplies						
Stationery and office supplies	1 000	-	-	600	-	*Idem.*
Medical supplies	1 500	-	-	1 500	-	
Sanitation and cleaning materials	1 400	-	-	798	-	Based on the standard rate of $5 per person per month.
Subscription	200	-	-	200	-	
Electrical supplies	200	-	-	-	-	No provision is made.
Uniform items	200	-	-	-	-	*Idem.*
Quartermaster and general stores	1 000	-	-	1 400	-	Increased requirements to provide, inter alia, the cost of packing material and archive boxes required for liquidation.
22. Freight	1 000	-	-	139 467	-	Increased requirements are due to the shipping and forwarding of all UNOMIL assets from the mission area.

B. Requirements for non-recurrent costs

(United States dollars)

	(1) Current inventory	(2) Replacement	(3) Additional to be purchased	(4) Total number of additional units	(5) Unit cost	(6) Total cost
1. Military personnel costs						-
2. Civilian personnel costs						-
3. Premises/accommodation						-
4. Infrastructure repairs						-
5. Transport operations						
(a) Purchase of vehicles						
4x4, light/medium	46	-	-	-	-	-
Sedan, light	1	-	-	-	-	-
Sedan, medium	3	-	-	-	-	-
Pick-up D/cabin	43	-	-	-	-	-
Truck, heavy	31	-	-	-	-	-
Truck, medium	20	-	-	-	-	-
Bus, light	22	-	-	-	-	-
Bus, medium	3	-	-	-	-	-
Ambulance	3	-	-	-	-	-
Water truck	5	-	-	-	-	-
Fuel truck, light	4	-	-	-	-	-
Fuel truck, heavy	1	-	-	-	-	-
Fork-lift, heavy	1	-	-	-	-	-
Recovery truck	2	-	-	-	-	-
Subtotal	**185**	-	-	-	-	-
Spare parts at 10 per cent						-
Subtotal						-
Freight at 15 per cent						-
Total, line 5 (a)	**185**	-	-	-	-	-
(b) Rental of vehicles	-	-	-	-	-	-
(c) Workshop equipment	-	-	-	-	-	-
(d) Spare parts, repairs and maintenance	-	-	-	-	-	-
(e) Petrol, oil and lubricants	-	-	-	-	-	-
(f) Insurance	-	-	-	-	-	-
Total, line 5	**185**	-	-	-	-	-
6. Air operations						
(a) Helicopter operations						
Hire/charter costs						-
Aviation fuel and lubricants						-
Positioning/depositioning costs						-
Resupply flights						-

		(1) Current inventory	(2) Replacement	(3) Additional to be purchased	(4) Total number of additional units	(5) Unit cost	(6) Total cost
	Painting/preparations						-
	Liability insurance						-
	Subtotal						-
(b)	*Fixed-wing aircraft*						-
(c)	*Aircrew subsistence allowance*						-
(d)	*Other air operations*						-
	Total, line 6						-
7.	**Naval operations**						-
8.	**Communications**						
(a)	*Complementary communications*						
	Communications equipment						
	VHF equipment						
	Motorola VHF portable	-	-	-	-	-	-
	Handy talkies	366	-	-	-	-	-
	Spectra base station	57	-	-	-	-	-
	Spectra mobile	185	-	-	-	-	-
	VHF repeater MSF - 5000	12	-	-	-	-	-
	GR 300 repeater	12	-	-	-	-	-
	Subtotal	**632**	-	-	-	-	-
	HF equipment						
	Micom XR mobile radio	9	-	-	-	-	-
	Micom XF radio	2	-	-	-	-	-
	Micom X base station	6	-	-	-	-	-
	Codan HF mobile	40	-	-	-	-	-
	Codan HF base	20	-	-	-	-	-
	Subtotal	**77**	-	-	-	-	-
	UHF equipment						
	Trunking system	4	-	-	-	-	-
	Trunking system controller	2	-	-	-	-	-
	Subtotal	**6**	-	-	-	-	-
	Satellite equipment						
	INMARSAT "C"	29	-	-	-	-	-
	INMARSAT "A"	2	-	-	-	-	-
	INMARSAT "M"	11	-	-	-	-	-
	Microwave	3	-	-	-	-	-
	Mini link	2	-	-	-	-	-
	Satellite dish 4.6	1	-	-	-	-	-
	Up-converter	3	-	-	-	-	-
	Modem switch	1	-	-	-	-	-
	Redundant switch	2	-	-	-	-	-

	(1) Current inventory	(2) Replacement	(3) Additional to be purchased	(4) Total number of additional units	(5) Unit cost	(6) Total cost
Down converter	2	-	-	-	-	-
Wattmeter	8	-	-	-	-	-
Low noise amplifier	3	-	-	-	-	-
Multiplexer	14	-	-	-	-	-
Aluminum shelter	4	-	-	-	-	-
Subtotal	**85**	-	-	-	-	-
Telephone equipment						
Mobile phone	4	-	-	-	-	-
Telephone sets	400	-	-	-	-	-
Rural link	28	-	-	-	-	-
MD 110-2 lim system	2	-	-	-	-	-
PABX 12 trunks	3	-	-	-	-	-
UPS, 5 KVA	7	-	-	-	-	-
UPS, 7.5 KVA	1	-	-	-	-	-
Cylink - 128	11	-	-	-	-	-
Cylink - 64	3	-	-	-	-	-
Subtotal	**499**	-	-	-	-	-
Miscellaneous equipment	-	-	-	-	-	-
Fascimile equipment						
Plain fax, normal paper	28	-	-	-	-	-
Plain fax, thermal paper	21	-	-	-	-	-
Subtotal	**49**	-	-	-	-	-
Subtotal, communications equipment	**1 308**	-	-	-	-	-
Spare parts at 20 per cent						-
Subtotal						-
Freight at 12 per cent						-
Subtotal, communications equipment						-
Spare parts and supplies	-	-	-	-	-	-
Workshop and test equipment						
Communication analyser	3	-	-	-	-	-
Counter power meter	2	-	-	-	-	-
Fluke meter, series 77	11	-	-	-	-	-
Spectrum analyser	2	-	-	-	-	-
Wattmeter	7	-	-	-	-	-
Megger for earth tester	1	-	-	-	-	-
Subtotal	**26**	-	-	-	-	-
Spare parts at 20 per cent						-
Subtotal						-
Freight at 12 per cent						-
Total, workshop and test equipment	**26**	-	-	-	-	-

	(1) Current inventory	(2) Replacement	(3) Additional to be purchased	(4) Total number of additional units	(5) Unit cost	(6) Total cost
Commercial communications	-	-	-	-	-	-
(b) *Main trunking contract*	-	-	-	-	-	-
Total, line 8	**1 334**	-	-	-	-	-
9. Other equipment						
Office furniture						
Desk, executive	24	-	-	-	-	-
Secretarial desk	70	-	-	-	-	-
Executive chair	24	-	-	-	-	-
Secretarial chair	37	-	-	-	-	-
Filing cabinet, 3 drawers	3	-	-	-	-	-
Filing cabinet, 4 drawers	105	-	-	-	-	-
Filing cabinet, 2 drawers	28	-	-	-	-	-
Lockable cabinet	31	-	-	-	-	-
Couch (sofa)	23	-	-	-	-	-
Subtotal, office furniture	**345**	-	-	-	-	-
Freight at 12 per cent						-
Total, office furniture	**345**	-	-	-	-	-
Office equipment						
Copiers, high-volume	8	-	-	-	-	-
Copiers, medium-volume	30	-	-	-	-	-
Fax machine, crypto HC	2	-	-	-	-	-
Shredders	9	-	-	-	-	-
Typewriters (electric)	5	-	-	-	-	-
Lamp, desk	55	-	-	-	-	-
Oscillating desk fan	20	-	-	-	-	-
Wall clock	24	-	-	-	-	-
Calculators	37	-	-	-	-	-
Subtotal, office equipment	**190**	-	-	-	-	-
Spare parts at 20 per cent						-
Subtotal, office equipment						-
Freight at 12 per cent						-
Total, office equipment	**190**	-	-	-	-	-
Data-processing equipment						
Server unit compaq	4	-	-	-	-	-
Desktop complete	80	-	-	-	-	-
Notebook computer	61	-	-	-	-	-
LaserJet printers	27	-	-	-	-	-
Desktop printers	57	-	-	-	-	-
Image scanner	2	-	-	-	-	-
Software (lot 1)	1	-	-	-	-	-

	(1) Current inventory	(2) Replacement	(3) Additional to be purchased	(4) Total number of additional units	(5) Unit cost	(6) Total cost
LAN system	1	-	-	-	-	-
UPS 600 VA	50	-	-	-	-	-
Subtotal, data-processing equipment	**283**	-	-	-	-	-
Spare parts at 20 per cent						-
Subtotal, data-processing equipment						-
Freight at 12 per cent						-
Total, data-processing equipment	**283**	-	-	-	-	-
Generators						
3 KVA	1	-	-	-	-	-
3.5 KVA	3	-	-	-	-	-
5 KVA	4	-	-	-	-	-
6 KVA	6	-	-	-	-	-
13.5 KVA	6	-	-	-	-	-
15 KVA	22	-	-	-	-	-
22 KVA	2	-	-	-	-	-
25 KVA	4	-	-	-	-	-
30 KVA	2	-	-	-	-	-
50 KVA	3	-	-	-	-	-
60 KVA	2	-	-	-	-	-
65 KVA	1	-	-	-	-	-
75 KVA	6	-	-	-	-	-
100 KVA	4	-	-	-	-	-
220 KVA	1	-	-	-	-	-
265 KVA	3	-	-	-	-	-
937 KVA	2	-	-	-	-	-
Subtotal, generators	**72**	-	-	-	-	-
Spare parts at 20 per cent						-
Subtotal						-
Freight at 12 per cent						-
Total, generators	**72**	-	-	-	-	-
Observation equipment						
Binoculars	28	-	-	-	-	-
Floodlights	14	-	-	-	-	-
Flashlights	80	-	-	-	-	-
Subtotal, observation equipment	**122**	-	-	-	-	-
Petrol tank plus metering equipment	-	-	-	-	-	-
Medical and dental equipment	-	-	-	-	-	-
Accommodation equipment	-	-	-	-	-	-

	(1) Current inventory	(2) Replacement	(3) Additional to be purchased	(4) Total number of additional units	(5) Unit cost	(6) Total cost
Miscellaneous equipment						
ID card machines	13	-	-	-	-	-
Air conditioners	39	-	-	-	-	-
Water coolers	3	-	-	-	-	-
Security alarms	-	-	-	-	-	-
Fire-prevention equipment	40	-	-	-	-	-
Water-purification equipment	13	-	-	-	-	-
Refrigeration equipment	42	-	-	-	-	-
Subtotal, miscellaneous equipment	**150**	-	-	-	-	-
Freight at 12 per cent						-
Total, miscellaneous equipment	**150**	-	-	-	-	-
Field defence equipment	-	-	-	-	-	-
Spare parts, repairs and maintenance	-	-	-	-	-	-
Water-purification equipment	-	-	-	-	-	-
Refrigeration equipment	-	-	-	-	-	-
Total, line 9	**1 162**	-	-	-	-	-
10. Supplies and services						-
11. Election-related supplies and services						-
12. Public information programmes						-
13. Training programmes						-
14. Mine-clearing programmes						-
15. Assistance for disarmament and demobilization						-
16. Air and surface freight						-
17. Integrated Management Information System						-
18. Support account for peacekeeping operations						-
19. Staff assessment						-
Total, lines 1 - 19						-

C. Supplementary explanation

1. *Military observers*. Provision of $430,400 is made for the mission subsistence allowance of 92 military observers for a total of 5,064 person/days, based on a phased withdrawal schedule. It is anticipated that 55 observers would be repatriated by 15 August 1997, another 29 by 31 August and the remaining eight observers by 30 September. Requirements for subsistence allowance are provided for the month of July 1997 ($242,420) and for the withdrawal period from 1 August to 30 September 1997 ($188,020). In addition, provision is made for the cost of repatriation travel for the 92 military observers during their withdrawal at the rates indicated in annex II.A, item 2 ($233,700). Provision is further made for clothing and equipment allowance at the rates indicated in annex II.A, items 3 and 4 ($2,700). Provision is made for the reimbursement to Governments of payments made by them to their military personnel for death, injury, disability or illness resulting from service with UNOMIL based on an average payment calculated at one per cent of the average monthly strength of military observers ($40,800).

2. *International staff salaries*. Provision of $1,519,800 is made for the salaries of international civilian personnel based on the phased reduction of personnel as detailed in the table contained in paragraph 22 of the main report and annex IV and includes the provision of eight person/months for the completion of residual administrative tasks in New York by the Chief Finance Officer (P-4) and one Field Service staff member beyond 31 December 1997. The withdrawal of international civilian personnel would be accomplished in three stages during the maintenance, withdrawal and administrative closing periods.

3. *Local staff salaries*. Provision of $288,300 is made for the salaries of local staff based on the phased reduction as detailed in the table contained in paragraph 22 of the main report and annex IV. Also, the withdrawal of local staff would be accomplished in three stages during maintenance, withdrawal and administrative closing.

4. *Common staff costs*. Provision of $1,487,500 is made for the common staff costs, including hazardous duty pay, for international and local personnel during the maintenance period ($357,700), the withdrawal period ($621,200) and the administrative closing period ($473,100) at the rates indicated in annex II.A, item 6. Provision is also made for the common staff costs for eight person/months for the Chief Finance Officer and one Field Service staff member for the completion of residual administrative tasks in New York ($35,500).

5. *Mission subsistence allowance*. Provision of $891,000 is made for the subsistence allowance of the international personnel during the maintenance period ($212,000), the withdrawal period ($360,700) and the administrative closing period ($277,200) based on the phased reduction as detailed in the table contained in paragraph 22 of the main report at the rates indicated in annex II.A, item 1. Provision of $41,100 is further made for the cost of daily subsistence allowance for the Chief Finance Officer and the Field Service staff member based in New York for the completion of residual administrative tasks at rates of $215 per day for the first 30 days, $183 per day for the next 30 days and $143 per day after 60 days.

6. *Other official travel*. Provision is made for:

   (a) Two official trips between New York and the mission area, in connection with the liquidation of the Mission, at a rate of $5,000 per trip ($3,500 for each round trip and $1,500 for seven days' subsistence allowance and terminal expense) ($10,000);

   (b) Six round trips to be undertaken by the Special Representative of the Secretary-General and a political officer to ECOWAS countries for courtesy and farewell calls before departure from the mission area at an average cost of $1,300 per trip ($700 per round trip and $600 for subsistence allowance and terminal expense) ($7,800);

   (c) Four trips to the liaison office in Abidjan by UNOMIL finance officers of three days' duration per trip at a rate of $1,060 per trip ($700 per round trip and $360 for subsistence allowance and terminal expense) ($4,240);

   (d) The cost of travel and subsistence allowance for two internal auditors for 21 days at a cost of $18,000;

(e) The cost of travel of two officers of the Lessons-Learned Unit to Monrovia, Accra and Abuja to undertake a study on the lessons learned from UNOMIL operations and from cooperation between ECOWAS and the United Nations at a cost of $6,950 per trip ($4,000 for round trip air fare and $2,950 for 14 days' subsistence allowance and terminal expense) ($13,900).

7. *United Nations Volunteers*. Provision of $53,700 is made for the cost of seven United Nations Volunteers at a monthly cost of $4,876 per Volunteer, inclusive of $400 for hazardous duty pay, for a total of 11 person/months for the maintenance period ($34,200) and the withdrawal period ($19,500).

8. *Rental of premises*. Provision of $794,100 is made for the rental of facilities for office space, a workshop and a warehouse during the maintenance period ($175,000), the withdrawal period ($364,100) and the administrative closing period ($219,000). These provisions are for the rental of three floors of a hotel complex for the period from 1 July to 30 September 1997 at rates of $31,000, $57,600 and $73,000, respectively. Provisions are also made for rental of other hotel facilities at a monthly rate of $19,460, space for a workshop at a monthly rate of $1,000, a warehouse for two months at a monthly rate of $4,000 and rental space for the UNOMIL satellite facilities at the Ducor Hotel at a rate of $200 per month during the withdrawal period. During the administrative closing only one floor at the hotel would be rented, at a rate of $65,700 per month, in addition to the workshop and the space at the Ducor Hotel. In addition, provision is made for the rental of office facilities for a liaison office in Abidjan for 61 days during the withdrawal period at a rate of $100 per day ($6,100). The liaison office will arrange and coordinate the travel and shipment of UNOMIL personnel and assets during the liquidation process. Furthermore, provision of $36,000 is made for the rental of storage space for the storage of the official records of the Mission at Headquarters for the prescribed three years.

9. *Alteration and renovation of premises*. Provision of $10,000 is made for the cost of alterations and renovations to restore UNOMIL rented premises to their original condition as stipulated under the various lease agreements.

10. *Utilities*. Provision of $219,900 is made for the cost of generator fuel for a 937 KVA generator at the hotel complex and for generators at other UNOMIL facilities and field station. It is estimated that at a cost of $0.24 per litre, the generators will consume 301,253 litres during the maintenance period, ($72,300), 379,063 litres during the withdrawal period ($91,000) and 235,822 litres during the administrative closing period ($56,600).

11. *Rental of vehicles*. Provision of $6,100 is made for the rental of a light utility vehicle to meet the transportation requirements of the liaison office in Abidjan at an estimated cost of $100 per day for 61 days during the withdrawal period.

12. *Spare parts, repairs and maintenance*. Provision of $43,300 is made for cost of spare parts, maintenance, accident damage and hostility damage repairs of United Nations-owned civilian-pattern vehicles at a monthly rate of $152 per vehicle, as indicated in annex II.A, item 9. It is projected that the mission will deploy 140 vehicles during the maintenance period ($21,300), an average of 68 vehicles during the withdrawal period ($15,600) and 14 vehicles during the administrative closing period ($6,400).

13. *Petrol, oil and lubricants*. Provision of $59,500 is made for fuel and lubricants for civilian-pattern vehicles during the maintenance period ($29,500), the withdrawal period ($21,200) and the administrative closing period ($8,800). It is estimated that each vehicle will consume 20.6 litres of fuel per day at a cost of $0.30 per litre. In addition, provision is made for lubricants at 10 per cent of fuel cost, as indicated in annex II.A, item 10.

14. *Vehicle insurance*. Provision of $19,300 is made for the cost of third-party liability insurance carried by the Mission and under the worldwide programme during the maintenance period ($4,700), the withdrawal period ($9,200) and the administrative closing period ($5,400). Third-party liability insurance coverage is based on an annual rate of $408 for each United Nations-owned civilian-pattern vehicle, as indicated in annex II.A, item 11.

15. *Helicopter operations*. Provision of $195,000 is made for the hire/charter cost of one Bell Utility helicopter (B-212) at a monthly rate of $69,800 for the period from 1 July to 15 August ($104,700) and one medium utility helicopter (MI-8) for the period from 1 to 15 August 1997, inclusive of $34,000 early

termination penalty ($90,300). Provision of $45,000 is also made for the depositioning of the B-212 helicopter ($15,000) and the MI-8 helicopter ($30,000) and $3,400 for ground handling charges at an estimated cost of $1,700 per month for the months of July and August 1997.

16. *Communications*. Provision of $12,000 is made for spare parts and supplies for the repair and maintenance of communications equipment at an average monthly cost of $3,000 during the maintenance period ($3,000) and the withdrawal period ($6,000) and $1,000 during the administrative closing period ($3,000). In addition, provision of $229,000 is made for the cost of commercial communications, consisting of (a) $55,000 during the maintenance period for transponder user charge ($8,000), for INMARSAT charges ($27,000), for telephone and telex charges ($15,000) and for pouch and postage ($5,000); (b) $81,000 during the withdrawal period for transponder charges ($8,000), for INMARSAT charges ($15,000), for telephone and telex charges ($12,500) and for pouch and postage ($5,000); and (c) $93,000 during the administrative closing period for transponder user charges ($8,000), for INMARSAT charges ($10,000), for telephone and telex charges ($10,000) and for pouch and postage ($3,000).

17. *Spare parts, repairs and maintenance*. Provision of $7,800 is made for the cost of repairs and maintenance of office equipment, generators, data-processing equipment and miscellaneous equipment not covered elsewhere, at a monthly rate of $2,100 during the maintenance and withdrawal periods and $500 during the administrative closing period.

18. *Audit services*. Provision of $69,200 is made for the cost of external audit, including liquidation audit in the Mission and at Headquarters.

19. *Contractual services*. Provision of $9,500 is made for cleaning services, water supply and handymen at an average monthly rate of $4,000 during the maintenance period, $2,000 during the withdrawal period and $500 during administrative closing, as indicated in annex II.A, item 20.

20. *Security services*. Provision of $53,400 is made for the services of security guards for UNOMIL premises at a monthly rate of $9,800 during the maintenance and withdrawal periods and $8,000 during administrative closing, as indicated in annex II.A, item 20.

21. *Medical treatment and services*. Provision of $1,200 is made for the cost of treatment of UNOMIL personnel at the standard rate of $1,000 for each one in 1,000 persons, as indicated in annex II.A, item 20.

22. *Claims and adjustments*. Provision of $4,500 is made for the cost of miscellaneous claims and adjustments arising from the day-to-day operations of the Mission, except for third-party vehicle accident claims or coverage under the worldwide vehicle insurance policy, at a monthly rate of $1,000 during the maintenance and withdrawal periods and $500 during administrative closing, as indicated in annex II.A, item 20.

23. *Official hospitality*. Provision of $1,500 is made for hospitality to local dignitaries in the context of good will in the official interest of the Mission at a monthly rate of $500 during the maintenance and withdrawal periods, as indicated in annex II.A, item 20.

24. *Miscellaneous other services*. Provision of $27,000 is made for the cost of miscellaneous services, including bank charges at a monthly rate of $6,000 for the maintenance and withdrawal periods and $3,000 during administrative closing, as indicated in annex II.A, item 20.

25. *Stationery and office supplies*. Provision of $3,600 is made for the cost of stationery and office supplies such as local printing, reproduction materials and data-processing supplies at a monthly rate of $1,000 during the maintenance and withdrawal periods and $200 during administrative closing, as indicated in annex II.A, item 21.

26. *Medical supplies*. Provision of $9,000 is made for the cost of medical and dental supplies for military and civilian personnel at a monthly rate of $2,500 during the maintenance and withdrawal periods and $500 during administrative closing, as indicated in annex II.A, item 21.

27. *Sanitation and cleaning materials*. Provision of $4,800 is made for sanitation and cleaning materials at the standard rate of $5 per person per month, as indicated in annex II.A, item 21.

28. *Subscription*. Provision of $900 is made for the cost of subscription to newspapers and periodicals at a monthly rate of $200 during the maintenance and withdrawal periods and $100 during administrative closing, as indicated in annex II.A, item 21.

29. *Quartermaster and general stores*. Provision of $8,500 is made for supplies such as oxygen, refills for fire extinguishers, gas cylinders, water and fuel cans, photographic supplies and other expendable general stores at $1,000 during the maintenance period, $6,000 during the withdrawal period to provide, *inter alia*, packaging materials and archive boxes and $500 during the administrative closing period.

30. *Commercial freight and cartage*. Provision is made for the cost of shipping and handling of supplies and equipment for which no provision has been made elsewhere at a monthly rate of $1,000 during the maintenance period, as indicated in annex II.A, item 20. In addition, provision is made for the cost of shipping, handling and forwarding charges of the Mission's assets and equipment from the mission area, estimated at $540,000 in connection with the liquidation of the Mission. Additional provision of $50,000 is also made for the final shipment of UNOMIL assets following the administrative closing of the Mission. Provision of $245,800 is further made for the UNOMIL share for the cost of a ship chartered by the World Food Programme for emergency evacuation for the period from 1 July to 15 August 1997, including expenses incurred in Monrovia.

31. *Support account for peacekeeping operations*. Pursuant to General Assembly resolution 51/239 of 16 July 1997, provision has been made for the balance of the UNOMIL share towards the support account for peacekeeping operations.

32. *Staff assessment*. The estimate represents the difference between gross and net emoluments, that is, the amount of staff assessment to which the United Nations staff members are subject, in accordance with the Staff Regulations of the United Nations.

33. *Income from staff assessment*. Staff assessment requirements provided for under budget line 19 have been credited to this item as income from staff assessment and are credited to the Tax Equalization Fund established by the General Assembly in its resolution 973 (X) A of 15 December 1955. Member States are given credit in the Fund in proportion to their respective rates of contribution to the UNOMIL budget.

Annex III

Proposed liquidation tasks for the period beyond 31 December 1997

Function	*Main tasks*	*Staff*	*Duration*
Process invoices from vendors	Verify that invoice has not already been paid, match invoice to appropriate purchase order and MOD, assemble receiving and inspection documents and prepare disbursement vouchers for settlement of invoices.	Chief Finance Officer	Expected to be completed by 28 February 1998.
Process F-10 claims	Process F-10 claims from staff members and military observers for their repatriation or reassignment travel from UNOMIL.	Chief Finance Officer	Expected to be completed by 30 April 1998.
Process inter-office vouchers	Follow up missing UNDP inter-office vouchers and process inter-office vouchers received from the Accounts Division at Headquarters and other missions in respect of deferred charges for PT-8 advances made.	Field service assistant	Expected to be completed by 30 April 1998.
Collection of accounts receivable	Prepare and send letters and reminders to former UNOMIL personnel, vendors and United Nations missions and agencies. Prepare write-off requests to the Controller where appropriate.	Field service assistant	Write-off requests to be submitted at the end of March 1998.
Assemble a master list of containers and vehicles sent to other missions and the United Nations Logistics Base	Assemble a master list of containers and vehicles shipped out to other missions and the United Nations Logistics Base.	Field service assistant	Work will begin as soon as archive files are available in New York and should be completed within one month thereafter.
Prepare reminder faxes for acknowledgement of documents	Identify those containers and vehicles for which PT-107 or receiving and inspection reports have not been received. For such shipments, reminder faxes are to be sent out every two weeks.	Field service assistant	Beginning as soon as the archive records are available in New York and continuing through 31 March 1998.
Reconciliation of bank statements	Review, monthly, outstanding checks and cancel stale checks.	Field service assistant	Reconciliation will be prepared through 31 March 1998 and reviewed by a representative of the Finance Management and Support Service, Field Administration and Logistics Division (FMSS/FALD).
Preparation of monthly financial statements	Maintain a general ledger from which financial statements are produced monthly and review outstanding obligations.	Chief Finance Officer	Expected to be completed by 31 March 1998.
Liquidate unnecessary obligations	Assist FMSS/FALD with analysis of outstanding obligations and prepare journal vouchers to liquidate unnecessary balances.	Chief Finance Officer/FMSS staff	To be completed during March 1998 after posting of February 1998 accounts.
Prepare performance report	Prepare the performance report for the period from 1 July 1997 to 28 February 1998.	Chief Finance Officer	To be prepared in March after closing of February 1998 accounts.

Function	*Main tasks*	*Staff*	*Duration*
Handover of remaining UNOMIL tasks to the Controller	Prepare list of outstanding checks and receivables as well as financial statements as at 31 March 1998, with a detail ledger providing the deferred debits and credits remaining for handover. Transfer of checking account balances to the United Nations Treasurer. Archiving of all documentary files.	Chief Finance Officer	Expected to be completed by mid-April 1998.
Prepare field mission files for the archive	Place files in boxes and prepare an index of files.	Field service assistant	Expected to be completed by mid-April 1998.

Annex IV
Current and proposed staffing table

	Professional category and above									General Service and other categories							Grand total
											GS	GS			Local		
	USG	ASG	D-2	D-1	P-5	P-4	P-3	P-2/1	Total	FS	(PL)	(OL)	SS	Total	staff	UNV	
Office of the Special Representative of the Secretary-General																	
Previous	1	-	1	-	1	5	5	-	13	-	1	3	-	4	3	-	20
Proposed																	
Maintenance period	1	-	-	-	1	4	3	2	11	-	1	2	-	3	2	-	16
Withdrawal period	1	-	-	-	-	4	3	-	8	-	-	2	-	2	2	-	12
Administrative closing period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office of the Chief Military Observer																	
Previous	-	-	1	-	-	-	-	-	1	-	-	2	-	2	26	-	29
Proposed																	
Maintenance period	-	-	1	-	-	-	-	-	1	-	-	1	-	1	26	-	28
Withdrawal period	-	-	1	-	-	-	-	-	1	-	-	1	-	1	-	-	2
Administrative closing period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Humanitarian Assistance Coordination Unit																	
Previous	-	-	-	-	1	-	-	-	1	-	-	-	-	-	1	-	2
Proposed																	
Maintenance period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Withdrawal period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administrative closing period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Election Division																	
Previous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proposed																	
Maintenance period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Withdrawal period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administrative closing period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Resident Auditor																	
Previous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proposed																	
Maintenance period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Withdrawal period	-	-	-	-	-	1	-	-	1	-	-	-	-	-	-	-	1
Administrative closing period	-	-	-	-	-	1	-	-	1	-	-	-	-	-	-	-	1
Administrative Division																	
Office of the Chief Administrative Officer																	
Previous	-	-	-	1	-	-	1	-	2	3	-	2	-	5	8	2	17
Proposed																	
Maintenance period	-	-	-	1	-	-	1	1	3	3	-	2	-	5	6	1	15
Withdrawal period	-	-	-	1	-	-	1	1	3	2	-	1	-	3	4	-	10
Administrative closing period																	
1-31 October 1997	-	-	-	1	-	1	3	-	5	1	-	2	-	3	5	-	13
1-30 November 1997	-	-	-	1	-	-	3	-	4	1	-	2	-	3	5	-	12
1-31 December 1997	-	-	-	1	-	-	1	-	2	1	-	2	-	3	4	-	9

	Professional category and above									General Service and other categories							
											GS	GS			Local		
	USG	ASG	D-2	D-1	P-5	P-4	P-3	P-2/1	Total	FS	(PL)	(OL)	SS	Total	staff	UNV	Grand total
Electronic Data-Processing Unit																	
Previous	-	-	-	-	-	-	1	-	1	-	-	-	-	-	6	2	9
Proposed																	
Maintenance period	-	-	-	-	-	-	1	-	1	1	-	-	-	1	6	1	9
Withdrawal period	-	-	-	-	-	-	-	-	-	1	-	-	-	1	6	-	7
Administrative closing period																	
1-31 October 1997	-	-	-	-	-	-	-	-	-	1	-	-	-	1	3	-	4
1-30 November 1997	-	-	-	-	-	-	-	-	-	1	-	-	-	1	3	-	4
1-31 December 1997	-	-	-	-	-	-	-	-	-	1	-	-	-	1	2	-	3
Building Management Service																	
Previous	-	-	-	-	-	-	1	-	1	1	-	-	-	1	26	-	28
Proposed																	
Maintenance period	-	-	-	-	-	-	-	1	1	-	-	-	-	-	26	-	27
Withdrawal period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24	-	24
Administrative closing period																	
1-31 October 1997	-	-	-	-	-	-	1	-	1	1	-	-	-	1	-	-	2
1-30 November 1997	-	-	-	-	-	-	-	-	-	1	-	-	-	1	-	-	1
1-31 December 1997	-	-	-	-	-	-	-	-	-	1	-	-	-	1	-	-	1
Finance Unit																	
Previous	-	-	-	-	-	1	1	-	2	2	1	1	-	4	8	-	14
Proposed																	
Maintenance period	-	-	-	-	-	1	-	1	2	2	1	1	-	4	8	-	14
Withdrawal period	-	-	-	-	-	1	-	-	1	2	-	1	-	3	8	-	12
Administrative closing period																	
1-31 October 1997	-	-	-	-	-	1	1	-	2	2	-	3	-	5	8	-	15
1-30 November 1997	-	-	-	-	-	1	1	-	2	2	-	3	-	5	8	-	15
1-31 December 1997	-	-	-	-	-	1	-	-	1	2	-	3	-	5	8	-	14
Personnel Unit																	
Previous	-	-	-	-	-	1	-	-	1	2	1	2	-	5	7	-	13
Proposed																	
Maintenance period	-	-	-	-	-	1	1	-	2	-	-	1	-	1	4	-	7
Withdrawal period	-	-	-	-	-	1	-	-	1	-	-	1	-	1	4	-	6
Administrative closing period																	
1-31 October 1997	-	-	-	-	-	1	-	-	1	-	-	1	-	1	3	-	5
1-30 November 1997	-	-	-	-	-	1	-	-	1	-	-	1	-	1	3	-	5
1-31 December 1997	-	-	-	-	-	-	-	-	-	-	-	1	-	1	2	-	3
Procurement Unit																	
Previous	-	-	-	-	-	1	-	-	1	4	-	1	-	5	5	-	11
Proposed																	
Maintenance period	-	-	-	-	-	1	-	1	2	1	-	1	-	2	3	-	7
Withdrawal period	-	-	-	-	-	1	-	-	1	-	-	1	-	1	2	-	4
Administrative closing period																	
1-31 October 1997	-	-	-	-	-	-	1	-	1	2	-	1	-	3	5	-	9
1-30 November 1997	-	-	-	-	-	-	1	-	1	2	-	1	-	3	5	-	9
1-31 December 1997	-	-	-	-	-	-	1	-	1	2	-	1	-	3	3	-	7

	Professional category and above									General Service and other categories					Local staff	UNV	Grand total
	USG	ASG	D-2	D-1	P-5	P-4	P-3	P-2/1	Total	FS	GS (PL)	GS (OL)	SS	Total			
General Services Unit																	
Previous	-	-	-	-	-	1	-	-	1	8	-	4	-	12	21	3	37
Proposed																	
Maintenance period	-	-	-	-	-	1	1	-	2	8	-	2	-	10	21	-	33
Withdrawal period	-	-	-	-	-	1	1	-	2	8	-	2	-	10	21	-	33
Administrative closing period																	
1-31 October 1997	-	-	-	-	-	1	-	-	1	8	-	1	-	9	6	-	16
1-30 November 1997	-	-	-	-	-	1	-	-	1	4	-	-	-	4	6	-	11
1-31 December 1997	-	-	-	-	-	-	-	-	-	4	-	-	-	4	5	-	9
Transport Unit																	
Previous	-	-	-	-	-	-	1	-	1	7	-	-	-	7	20	1	29
Proposed																	
Maintenance period	-	-	-	-	-	-	-	-	-	7	-	-	-	7	20	1	28
Withdrawal period	-	-	-	-	-	-	-	-	-	7	-	-	-	7	12	-	19
Administrative closing period																	
1-31 October 1997	-	-	-	-	-	-	-	-	-	4	-	-	-	4	8	-	12
1-30 November 1997	-	-	-	-	-	-	-	-	-	4	-	-	-	4	8	-	12
1-31 December 1997	-	-	-	-	-	-	-	-	-	2	-	-	-	2	5	-	7
Communications Unit																	
Previous	-	-	-	-	-	-	1	-	1	13	-	-	-	13	22	5	41
Proposed																	
Maintenance period	-	-	-	-	-	-	1	-	1	13	-	-	-	13	22	4	40
Withdrawal period	-	-	-	-	-	-	1	-	1	10	-	-	-	10	15	1	27
Administrative closing period																	
1-31 October 1997	-	-	-	-	-	-	-	-	-	7	-	-	-	7	17	-	24
1-30 November 1997	-	-	-	-	-	-	-	-	-	2	-	-	-	2	17	-	19
1-31 December 1997	-	-	-	-	-	-	-	-	-	2	-	-	-	2	13	-	15
Security Unit																	
Previous	-	-	-	-	-	-	1	-	1	3	-	1	-	4	2	-	7
Proposed																	
Maintenance period	-	-	-	-	-	-	1	-	1	3	-	1	2	6	2	-	9
Withdrawal period	-	-	-	-	-	-	1	-	1	2	-	1	2	5	2	-	8
Administrative closing period																	
1-31 October 1997	-	-	-	-	-	-	-	-	-	-	-	-	1	1	1	-	2
1-30 November 1997	-	-	-	-	-	-	-	-	-	-	-	-	1	1	1	-	2
1-31 December 1997	-	-	-	-	-	-	-	-	-	-	-	-	1	1	1	-	2
Subtotal, Administration																	
Previous	-	-	-	1	-	4	7	-	12	43	2	11	-	56	125	13	206
Proposed																	
Maintenance period	-	-	-	1	-	4	6	4	15	38	1	8	2	49	118	7	189
Withdrawal period	-	-	-	1	-	4	4	1	10	32	-	7	2	41	98	1	150
Administrative closing period																	
1-31 October 1997	-	-	-	1	-	4	6	-	11	26	-	8	1	35	56	-	102
1-30 November 1997	-	-	-	1	-	3	5	-	9	17	-	7	1	25	56	-	90
1-31 December 1997	-	-	-	1	-	1	2	-	4	15	-	7	1	23	43	-	70

	Professional category and above									General Service and other categories							
											GS	GS			Local		Grand
	USG	ASG	D-2	D-1	P-5	P-4	P-3	P-2/1	Total	FS	(PL)	(OL)	SS	Total	staff	UNV	total
Total																	
Previous	1	-	2	1	2	9	12	-	27	43	3	16	-	62	155	13	257
Proposed																	
Maintenance period	1	-	1	1	1	8	9	6	27	38	2	11	2	53	146	7	233
Withdrawal period	1	-	1	1	-	9	7	1	20	32	-	10	2	44	100	1	165
Administrative closing period																	
1-31 October 1997	-	-	-	1	-	5	6	-	12	26	-	8	1	35	56	-	103
1-30 November 1997	-	-	-	1	-	4	5	-	10	17	-	7	1	25	56	-	91
1-31 December 1997	-	-	-	1	-	2	2	-	5	15	-	7	1	23	43	-	71

Annex V

Resources made available and operating costs for the period from inception to 30 June 1998 as at 31 August 1997

(Thousands of United States dollars)

		Gross	*Net*
A.	**Summary of resources**		
1.	**Resources**		
	22 September 1993-21 April 1994		
	Commitment authority (decision 48/478)	40 318.0	39 560.8
	22 April-22 October 1994		
	Appropriations (resolution 49/232 A)	17 548.3	16 887.8
	23 October 1994-13 January 1995		
	Appropriations (resolution 49/232 A)	4 303.3	4 080.0
	14 January -13 April 1995		
	Appropriations (resolution 49/232 B)	4 781.4	4 533.3
	14 April-30 June 1995		
	Commitment authority (resolution 49/232 B)	4 090.8	3 878.5
	1 July-15 September 1995		
	Appropriations (resolution 49/232 B)	3 553.0	3 309.8
	16 September-31 December 1995		
	Appropriations (resolution 49/232 B)	4 974.3	4 633.5
	1 January-31 January 1996		
	Appropriations (resolution 50/210)	9 773.6	9 608.2
	1 February -31 March 1996		
	Commitment Authority (resolution 50/210)	12 169.6	11 838.8
	1 July 1996-30 June 1997		
	Appropriation (resolution 51/3 A)	14 016.0	13 186.8
	1 July 1996-30 June 1997		
	Appropriation (resolution 51/3 B)	17 899.0	17 544.1
	1 July 1997-30 June 1998		
	Appropriation (resolution 51/3 C)	20 447.1	18 918.3
	Total, line 1	**153 874.4**	**147 979.9**

		Gross	*Net*
2.	**Operating costs**		
	22 September 1993-21 April 1994		
	Expenditure	20 367.2	19 872.3
	22 April-22 October 1994		
	Expenditure	17 548.3	16 887.8
	23 October 1994-30 June 1995		
	Expenditure	12 553.0	11 830.6
	1 July 1995-30 June 1996		
	Expenditure	17 004.1	15 946.4
	1 July 1996-30 June 1997		
	(Pro forma)	31 915.0	30 730.9
	1 July 1997-30 June 1998		
	(Pro forma)	20 447.1	18 918.3
	Total, line 2	**119 834.7**	**114 186.3**
	Total, 1 less 2	**34 839.7**	**33 793.6**
3.	**Credits applied to Member States**		
	22 September 1993-21 April 1994	7 520.9	7 335.7
	22 September 1993-21 April 1994	10 027.4	9 552.1
	22 September 1993-21 April 1994	2 402.5	2 800 7
	14 April-30 June 1995	395.6	436.3
	23 October 1994-30 June 1995	226.9	224.9
	1 July 1996-30 June 1997	13 466.4	13 443.9
	Total	**34 839.7**	**33 793.6**
4.	**Unencumbered balance (1-2-3)**	-	-
B.	**Cash position**		
1.	**Income**		
	Assessed contributions received (see para. 14 of the present report)	96 625.3	96 625.3
	Voluntary contributions in kind	-	-
	Voluntary contribution in cash	-	-
	Interest income	769.0	769.0
	Miscellaneous income	179.0	179.0
	Total	**97 573.3**	**97 573.3**
2.	**Less operating cost**		
	22 September 1993-21 April 1994	20 367.2	19 872.3
	22 April-22 October 1994	17 548.3	16 887.8
	23 October 1994-30 June 1995	12 553.0	11 830.6
	1 July 1995-30 June 1996	17 004.1	15 946.4
	1 July 1996 -30 June 1997		
	(Pro forma)	31 915.0	30 730.9
	1 July 1997 to 30 June 1998		
	(Pro forma)	20 447.1	18 918.3
	Total, line 2	**119 834.7**	**114 186.3**
3.	**Projected operating deficit**	**(22 261.4)**	**(16 613.0)**

Annex VI
Voluntary and trust fund contributions

A. Voluntary contributions

(United States dollars)

Government	*Contribution*	*Value*
Cash contributions	—	—
In-kind contributions	—	—

B. Trust fund contributions

(United States dollars)

Government	*Paid*	*Pledged*
Trust Fund for the Implementation of the Cotonou Agreement in Liberia		
Denmark	294 616	—
Egypt	10 000	—
France	679 612	—
Japan	809 000	—
Netherlands	261 584	—
Norway	291 056	—
Switzerland	34 626	—
United Kingdom of Great Britain and Northern Ireland*	1 000 000	—
United States of America	22 190 400	—
Total	**25 570 894**	—

* For humanitarian assistance only.

United Nations A/52/402

General Assembly

Distr.: General
29 September 1997

Original: English

Fifty-second session
Agenda item 99 (b)
Operational activities for development: economic and technical cooperation among developing countries

State of South-South cooperation

Report of the Secretary-General

I. Introduction

1. In its resolution 50/119 of 20 December 1995, entitled "Economic and technical cooperation among developing countries and a United Nations conference on South-South cooperation", the General Assembly requested the Secretary-General to present to it on a biennial basis a report entitled "State of South-South cooperation" containing a comprehensive overview and analysis of South-South economic and technical cooperation worldwide and international support in that regard, including quantitative data and indicators on all aspects of South-South cooperation. The Assembly invited the United Nations Conference on Trade and Development (UNCTAD), together with the regional commissions and all other organs, organizations and agencies of the United Nations system, to provide analytical and empirical material for the preparation of the report. Accordingly, the Secretary-General has prepared the present report for the consideration of the General Assembly at its fifty-second regular session.

2. The current international scene is witnessing a marked upsurge in cooperation among developing countries. In the past four years alone, more than 100 actions can be recorded involving a variety of actions to establish, revise, reinvigorate and launch initiatives in economic cooperation among developing countries (ECDC) and technical cooperation among developing countries, as well as in other modes of developing country cooperation. This is happening at the same time as the world is witnessing an increased globalization of its economies, accompanied by a progressive liberalization. There is globalization in trade, production and finance, all of which are closely connected, yet quite distinct. The globalization trend in trade, especially intra-industry trade, is connected with the globalization trend in production, whereby different stages of manufactures production are being split up and located in different geographical regions. The globalization of production is connected with — although not synonymous with — the globalization of firms; hence there are no more exclusively regional or global markets. Related to this is the increased competition among enterprises. Large and small firms have responded to this by regionalizing, specializing via product differentiation and often by forging business alliances on the supply, marketing and production fronts.

3. To some extent, the globalization of finance is part and parcel of the globalization of trade and production. While trade cannot take place without finance and the production process involves investment, which is closely connected with it, finance as such has been globalized at a pace and a scale surpassing trade and poses questions distinct and different from trade globalization. The most important factors in financial globalization have been the progressive deregulation and liberalization of controls of financial movements and the revolution in communications.

97-26242 (E) 161097 171097

4. Interacting with this trend towards globalization is the process of general liberalization of economies through autonomous, subregional/regional and international arrangements. The adoption of wide-ranging economic reforms, especially free market reforms, and liberal policies vis-à-vis the rest of the world has become prevalent in developing countries. This has fostered growing convergence of the main macroeconomic policies of countries and enhanced the scope for developing and strengthening inter-State economic linkages and political relations. In addition to the autonomous reforms, the process of international trade liberalization has been further strengthened by the conclusion of the Uruguay Round of Multilateral Trade Negotiations, signalled by the signing of the Final Act and the Agreement establishing the World Trade Organization (WTO) in April 1994 and the entry into force of these legal texts on 1 January 1995.

5. The liberalization of international trade, financial transactions and, to some degree, foreign direct investment intensifies competition among economies (and their enterprises) and necessitates secure and large domestic economic spaces as bases from which firms can launch successfully into the international trading system. Accordingly, expanded subregional, regional and, recently, interregional economic spaces emerged in Europe and North America, among developing countries and between developed and developing and transition economies. For developing countries, the primary motivation is the formation and consolidation of viable economic spaces that would create dynamic trade and investment growth, develop viable, integrated and competitive productive systems to serve regional and international markets, strengthen macroeconomic policy coordination and enhance infrastructural linkages. Most developing countries were also concerned about their possible marginalization from the expanded markets in Europe and North America, and this concern fortified their resolve to accelerate their own trade, investment and financial integration processes.

II. Institutional state of South-South cooperation

A. Cooperation at the subregional, regional and global levels

6. The approaches employed in achieving the common objective of consolidated economic spaces for trade, investment and financial growth vary among the different regions. In Africa, countries have adopted new treaties or revised existing ones which are directed at establishing classic common markets and economic unions. Measures include the formation of the African Economic Community, encompassing the entire African continent; the dissolution of the West African Economic Community, followed by the transformation of the West African Monetary Union into the West African Economic and Monetary Union; the transformation of the Preferential Trade Area for Eastern and Southern African States (PTA) into the Common Market for Eastern and Southern Africa (COMESA), and of the Southern African Development Coordination Conference (SADCC) into the Southern African Development Community (SADC); the formation of the Economic and Monetary Community of Central African States to replace the Central African Customs and Economic Union; the adoption of a new treaty revising the cooperation framework under the Economic Community of West African States (ECOWAS); and ongoing negotiations to revise the Southern African Customs Union.

7. In West Asia, the process of subregional economic integration basically stagnated, but it is receiving new attention in the wake of wider interregional initiatives. In Central, South and East Asia and the Pacific, legally binding preferential or free trade agreements have been adopted, in contrast to the past practice of avoiding such commitments. This significant policy change is visible in the formation of the Association of South-East Asian Nations (ASEAN) Free Trade Area, the Protocol on Preferential Trade of the Economic Cooperation Organization (ECO), South Asian Association for Regional Cooperation (SAARC), the South Asian Preferential Trading Arrangement and the Melanesia Spearhead Group free trade area. In addition, in South-East Asia in particular, economic "growth poles" involving two or more countries or territories sharing a border are being formed to develop trade and investment potentials. These include the southern China growth triangle (China, Hong Kong and Taiwan Province of China), which has evolved through the enterprise community taking advantage of the Chinese open-door policy and has little government involvement and the ASEAN southern growth triangle (Indonesia, Malaysia and Singapore), established with strong government involvement. The success of these two growth triangles is encouraging the formation of trade and investment zones in other parts of South and South-East Asia. Additionally, ASEAN membership has been increased to include the Lao People's Democratic Republic, Myanmar and Viet Nam.

8. In Latin America and the Caribbean, there has been wide acceptance of the notion of "open regionalism", denoting a process of regional integration that is consistent

with the liberal economic reforms and outward-oriented policies embraced by countries in the region. This notion is being embedded into the single-market programmes being pursued at various levels but concentrated mainly on free trade agreements. One level involves selective bilateral/trilateral free trade and integration agreements between interested countries outside the framework of existing subregional/regional integration groupings, mirroring the "economic growth zone" phenomenon in South-East Asia. A notable example of these agreements is the Argentine-Brazilian integration process, which subsequently evolved into the Southern Cone Common Market (MERCOSUR). The Group of Three (Mexico, Colombia, Venezuela), which aims to achieve free trade by the year 2005, is another example.

9. Another level of trade, investment and financial integration involves the strengthening of single-market programmes within established subregional/regional groupings to attain customs union and common market status by or around the year 2005. Decisions and instruments to this effect have been formulated, agreed and launched within the Latin American Integration Association (LAIA), the Andean Group, MERCOSUR, the Caribbean Community (CARICOM), the Central American Common Market and the Group of Three. The integration process in Central America has been particularly vibrant, with continuing efforts to strengthen the Central American Common Market, the formation of the Central American Integration System, the formation of the Northern Trade Triangle, which subsequently became the Central American Group of Four, and the creation of association agreements between Central American countries and individual members of the Group of Three. A new organization — the Association of Caribbean States — was formed to promote cooperation among countries washed by the Caribbean Sea in developing trade, investment and tourism. Finally, CARICOM membership increased to include Haiti.

10. Yet another level of trade, investment and financial integration in Latin America and the Caribbean involves the proposed formation of a hemispheric single market, namely a free trade area of the Americas. The proposal flows from the North American Free Trade Agreement (NAFTA), which started as the Canada-United States Free Trade Agreement, and the Enterprises for the Americas Initiative of the United States Government announced in June 1990. Work has started on preparation for active negotiations among interested countries on the framework of the free trade area of the Americas, which would be established by the year 2005.

11. At the interregional level, several cooperation initiatives have emerged. At the beginning of 1997, the developing countries held the South-South Conference on Trade, Investment, Finance and Industrialization sponsored by the Group of 77 and China at San José from 13 to 15 January 1997, to evaluate their cooperation and review the recommendations of the Caracas Programme of Action on Economic Cooperation in Developing Countries of 1981 (see A/36/33), in the light of the changed realities of the international economy, their changed national policies and their changed approach to cooperation. This resulted in the San José Declaration and Plan of Action, which contained recommendations in various sectors, with special emphasis on trade, finance, debt and investment cooperation in the context of the new dominant realities of the international economy. The second round of negotiations of the Global System of Trade Preferences among Developing Countries (GSTP) is another example. The Movement of Non-Aligned Countries and the Summit Level Group for South-South Consultations and Cooperation (Group of Fifteen) have been meeting regularly at the level of heads of State to review and take actions for the implementation of practical South-South economic cooperation projects. At its first summit meeting, the Group of Fifteen adopted 15 South-South projects, which it has since been endeavouring to implement.

12. Mixed-country groupings have proposed ambitious programmes for liberalizing trade and investment. These include the Asia-Pacific Economic Cooperation process, whose member economies have agreed to create a free trade and investment area by the year 2020, the previously mentioned free trade area of the Americas, an Indian Ocean rim cooperation grouping, a Middle East and North African community (of which a third conference was held at Cairo in November 1996) and a Euro-Mediterranean association of Middle East and North African countries bordering the Mediterranean Sea and States members of the European Union (EU). The latter two groupings are giving new stimulus to discussion by Governments and within private and academic circles on possibilities for reviving and strengthening economic integration initiatives among West-Asian countries. The Indian Ocean Rim Association for Regional Cooperation was formally set up on 6 March 1997 with the signing of its Charter by Australia, India, Indonesia, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Singapore, South Africa, the United Republic of Tanzania and Yemen. Finally, EU is also forging ahead in the creation of free trade agreements with various countries, including the establishment of the so-called Europe Agreements involving free trade agreements with Estonia, Latvia and Lithuania and interim agreements leading to full

free trade with Romania and Poland. In addition, EU has formed a free trade agreement with Turkey and proposed free trade agreements with MERCOSUR and South Africa (and indirectly the Southern African Customs Union, which shares a single common external tariff and import regime). The tasks facing countries with newly constituted subregional, regional and interregional integration initiatives variously entail the completion of negotiations on draft proposals, the ratification of adopted programmes and the implementation of these programmes in a sustained and consistent fashion.

B. Relationship between developing country cooperation and the new global disciplines

13. It will be necessary to review the implications of the new international trading framework resulting from the Uruguay Round agreements for the use of existing policy instruments for promoting mutual trade cooperation among developing countries at national, bilateral, subregional and interregional levels. Similar reconsideration is also due for new policy instruments. The new international trading framework gives rise to many issues. Perhaps the most critical are the following:

(a) Strengthened disciplines regarding free trade areas and customs unions contained in the understanding regarding article XXIV of the General Agreement on Tariffs and Trade (setting, in general, a 10-year time limit for their achievement; tightening provisions for common external tariffs, applying the dispute settlement mechanism to such agreements, etc.), while the special provisions in favour of developing countries under part IV of the Agreement Establishing the World Trade Organization (WTO), as well as past decisions of the General Agreement on Tariffs and Trade (GATT) regarding preferences, such as the enabling clause, remain in force;

(b) Extension of the multilateral trading framework to services within the General Agreement on Trade in Services, which contains in article V provisions regarding integration groupings similar to those in article XXIV of the General Agreement on Tariffs and Trade;

(c) Creation of a new WTO Committee on Regional Trade Agreements to improve WTO procedures regarding the examination of agreements regarding their conformity with WTO agreements to consider periodic reports of regional trade agreements, and to consider the systemic implications of such agreements and regional initiatives for the multilateral trading system;

(d) A number of specific provisions limiting the possibilities of Governments to apply promotional instruments for expanding foreign trade, investments and services;

(e) Substantially tightened provisions regarding the duration of GATT waivers.

14. It can be observed that the Uruguay Round and the intensification of multilateral disciplines have in some cases resulted in multilateral disciplines overtaking the subregional, regional and interregional agreements. In some areas, the multilateral disciplines might be more stringent than the relevant disciplines in cooperation groups. In other cases, the disciplines that have been accepted at the subregional, regional and interregional levels have become multilateralized and extended to all members of WTO. The implication of this is that, in the future, subregional, regional and interregional trade, investment and financial agreements will in many cases build on the WTO disciplines, with the result that "WTO plus regionalism" would mean that those disciplines that are included in WTO could be refined, technically perfected and intensified at the subregional, regional and interregional levels. And a number of issues which are considered "new" on the multilateral agenda will have already been incorporated into the regional agreements.

15. On the other hand, there may be a danger that the participants in regional agreements will negotiate disciplines in new areas among themselves and adopt approaches in the regional context that may be inconsistent with an eventual multilateral agreement on such issues, as well as with what is done in other regions. The challenge facing developing countries is to organize their cooperation in a way that, while furthering the benefits of cooperation per se, contributes to the proper functioning of the international trading and financing systems. Regionalism which interacts with international disciplines is a new phenomenon, which calls for a revision of received notions of economics. The contents of the new modes of cooperation, and indeed of all ECDC under the prevailing conditions of the globalizing world economy, have two critical features: they are compatible with globalization, and are interactive with it. The practical and theoretical consequences of these features are elaborated below.

1. Compatibility of economic cooperation among developing countries with globalization and liberalization

16. The compatibility between the international system and cooperation arises in the first place from the process of removal of barriers to trade, investment and finance explicit

in cooperation. This can be underpinned, as has been done, by implementing policy reforms that increase allocative efficiency and liberalize access in general. If such policies are accompanied by a flexible attitude towards membership, cooperation arrangements become stepping stones towards larger spheres of cooperation. This has been associated with the rising practice of "open regionalism" or "open and flexible ECDC", concepts developed by the Economic Commission for Latin America and the Caribbean and UNCTAD respectively. Indeed, this is echoed explicitly in the San José Plan of Action, which places ECDC in the context of the globalizing economy.

17. Another aspect of open and flexible ECDC has been the homogenization of norms and standards with their international counterparts. It is evident that intergovernmental developing country cooperation in particular would require rules and standards in various domains, for example rules of origin for goods, rules on dispute settlement, rules on product standards, rules on financial regulations, rules on cross-border banking and so on. The closer these are to negotiated international norms and standards, as set in the multilateral trade or finance system, the more they enhance the international system and make it possible to participate in it at minimum cost. When such norms are not yet set, it is obvious that cooperative groups' rules become models for larger cooperation.

2. Interaction with the global system

18. The emerging trends of cooperation emphasize multisectoral cooperation with deeper cooperation content than mere free trade areas or customs unions. Indeed, in recent years a preference has been revealed for developing regional/subregional production systems, for investment-technology cooperation and for regional financial cooperation, as well as for furthering the interconnections among these various sectors. Moreover, unlike in the case of the early forms of cooperation involving border arrangements only, the trends indicate cooperation within the borders of the countries involved. Examples are to be found in harmonization of regulations, mutual recognition of standards and, as in MERCOSUR and EU, policy coordination. While this is in the first place necessary for developing the underlying production capacity for trade and for opening up the necessary space for viable investment and for mobilizing regional financial resources in an efficient manner, it changes the configuration of the relationship between the two systems. The deeper content and multisectoral cooperation now in evidence enhances the participatory capacities of developing countries in the global markets. Specific examples of this include facilitating the creation and operation of business firms with a cross-border vocation through suitable regulations and incentives and pooled investment in human resources open to all firms; granting full mobility of human resources; and granting the right of establishment, perhaps by accepting each other's national standards, for firms and businesses. In the context of the liberal trading policies advocated, this ought to promote product differentiation and bring standards to international levels. It will also create opportunities for forging business alliances and testing them on the regional level. Hence, such cooperation would develop the competitive capacities necessary for success in the international market place and also affords some learning by doing.

19. Successful examples of South-South cooperation create competitive alternatives to the multilateral system if this system does not advance in the interest of all its members. This serves both as an insurance against negative externalities of the multilateral system and as a powerful force to advance and increase the efficiency of the larger system. It is in this sense that a beneficial interaction between, say, "WTO plus cooperation" and the international system is to be understood. Finally, building up a political constituency for international cooperation through regional/subregional cooperation, which is easier for public opinion to relate to, is a major contribution to the international system in any democratic society.

3. Consequences of the new mode of South-South cooperation

20. The first and obvious consequence of this new mode of South-South cooperation is the modification of the setting in which traditional static economic theory has judged the benefits of custom unions. The traditional theory considered only the trade aspects, assuming everything else to be constant. Under this multisectoral and deep form of integration, the dynamic consequences of growth and complementarity are critical, as they inevitably produce higher efficiencies and reduce the internal cost of enterprises, thereby resulting in lower product prices. This improvement in consumer welfare renders inappropriate the traditional conclusion of economists that the global system is *a fortiori* superior to subglobal cooperation. A practical consequence of this type of cooperation is to eliminate the manifestation of power asymmetries in international agreements. This results from the smaller structural differences among regional partners and closer proximity of their underlying capacities in all domains. Thus, the higher degree of convergence likely to characterize regional and other ECDC agreements reduces conflicts in the global

process and narrows down the extent of compromise necessary to reach agreement. In effect, "WTO plus cooperation" leads to interaction with the international system which renders international negotiations at the global level less difficult by virtue of the prior existence of outcomes agreed to by the developing countries. It also forges political platforms and alliances more evenly matched, thereby reducing the asymmetries of underlying economic and political power in global negotiations.

21. Finally, multisectoral cooperation that reinforces the interconnections between trade, investment and finance on a viable scale avoids the major shortcomings of past South-South cooperation. In the past simple sectoral cooperation ran up against a lack of complementarity, asymmetrical distribution of benefits among participants and, often, the non-existence of sufficiently developed production structures capable of trade complementarity.

III. Operational state of South-South cooperation

A. Trade cooperation

1. Recent trends

22. After the problems encountered by developing countries in the mid-1980s, their foreign trade entered a period of rapid expansion. Over the period 1990-1995, the value of exports from developing countries as a group expanded at an annual average rate of 11.6 per cent, much faster than world trade as a whole (7.4 per cent per annum).

23. During that same period, mutual trade among developing countries rose from $800 billion to $1,400 billion, or by 15.4 per cent annually. The dynamism of mutual trade gave a significant boost to the expansion of total exports of developing countries as a group, since it contributed half of the increase in their world exports. As a result, the share of intra-trade rose significantly, reaching 40 per cent of total world exports. Since 1981, mutual trade among developing countries has by and large doubled its share in total world trade, reaching 11 per cent in 1995.

24. Most of the dynamism of mutual trade was to be found within the major geographical regions, where trade has expanded on average by 17 per cent annually over the past five years. Intraregional trade accounts now for 30 per cent of developing countries' trade and 8.6 per cent of total world trade.

25. The growth of interregional trade among developing countries has been substantial, but with 9.8 per cent growth, it remains at 57 per cent of the intraregional average. Its share in mutual trade among developing countries fell to 23 per cent, while its share in total world trade rose to a still modest 2.5 per cent. During this period, the patterns and type of interregional trade have changed profoundly — from a dominance of petroleum exports from the countries of the Middle East and other oil-exporting countries to a much more diversified product pattern, in which manufactures now play the leading role.

26. The rapid growth performance was, however, concentrated in a small group of dynamic countries, which have by now achieved a high degree of international competitiveness in industrial exports. In particular, South and South-East Asian countries, which at 15.4 per cent per annum achieved impressive export growth worldwide, increased their trade with developing countries at a rate of 19 per cent annually. As a result, this group of countries contributed almost half of interregional exports among developing countries, mainly manufactures. The group of Latin American and Caribbean countries achieved 7.9 per cent annual growth in their total trade, and 12.3 in their intra-trade. By contrast, African and Middle Eastern exports were sluggish both internationally and in terms of intraregional trade. African exports worldwide increased only by an annual 8 per cent (value terms), and exports to other developing countries by 3.4 per cent.

27. African countries' trade with other developing countries accounts for only 16 per cent of their total trade. The pattern of this trade is predominantly oriented towards other African countries. In the context of the rapid expansion of South and South-East Asian markets, African exports have made very little headway: they grew only by 6.4 per cent annually, compared with an annual growth in imports from South and South-East Asia of 16.5 per cent, i.e.,60 per cent below the overall rate of imports. There is also a marked imbalance in Africa's trade balance with this region, with imports growing at about two and a half times the rate of exports. On the whole, Africa's share in intra-developing country trade decreased during the period 1991-1995 from 3.9 to 2.3 per cent.

28. The situation of the Middle East reflects fundamental weaknesses resulting from dependence on oil and gas trade and a very small intraregional trade exchange. Total Middle Eastern exports increased by a modest 4 per cent over the five-year period, and exports to other developing countries increased at roughly the same rate. This slow growth masks, however, a better volume performance as a result of the decline in oil prices. Trade with South and South-East Asia

constituted the Middle East's most dynamic component, with an annual growth of 7.2 per cent. Middle Eastern countries' trade within the region still accounts for less than 8 per cent of their total trade and if oil is excluded for less than 4 per cent, a very small share indeed.

29. These trends point to an imbalance between the potential for interregional trade and the actual performance of the trade of developing countries. They also point to a trend towards new imbalances amongst regions and countries, which would require the use of South-South instruments to promote more balanced mutual trade expansion among developing countries. The shift from petroleum as a major commodity in interregional trade to manufactures should further facilitate the use of GSTP for expansion of interregional trade among developing countries, together with more trade resulting from strengthened investment, technology and enterprise cooperation.

30. Finally, the expansion of trade in goods has been accompanied by a substantial increase in developing countries' capacities in services. Certain developing countries have now also developed greater capacities to compete in other areas, such as government procurement. Several of them have become important investors and technology partners in other developing countries.

2. Strengthening the trade framework among developing countries

31. The "autonomous" liberalization implemented by developing countries has been a major stimulus to trade among them over recent years. In addition, some integration groupings of developing countries have taken off and spurred mutual trade and economic integration, and attracted investment from various sources, as outlined above. Various country initiatives for bilateral trade arrangements intensified the networks of such arrangements, particularly in Latin America. In many cases, such integration and preferential arrangements now exceed by far the traditional range of tariff preferences for industrial products and extend to services, government procurement and investment. They involve the harmonization of various domestic policies, standards and measures that have effects on foreign trade.

B. Trade promotion instruments

1. Global System of Trade Preferences among Developing Countries

32. GSTP is the most comprehensive instrument for trade promotion among developing countries. It came into being after a long process of negotiations that started at the Ministerial Meetings of the Group of 77 in Mexico City in 1976, and continued in Arusha, United Republic of Tanzania, in 1977 and Caracas in 1981. The first round of GSTP negotiations was concluded in April 1988 in Belgrade, and the GSTP agreement was signed by 48 countries members of the Group of 77, which exchanged trade concessions in the course of the round. The agreement entered into force on 19 April 1989.

33. The second round of GSTP negotiations was launched in Tehran in November 1991, with the aim of facilitating the process of accession to GSTP, expanding product coverage and carrying forward the exchange of trade concessions. The Negotiating Committee for the second round, set up under the Tehran Declaration, adopted its plan for the second round and established four negotiating groups on respective facilitation of accession, product-by-product negotiations, across-the-border tariff negotiations, direct trade measures and non-tariff and sectoral agreements.

34. The GSTP Committee of Participants, the Negotiating Committee and the Negotiating Group on Facilitation of Accession extended an invitation for participation by other members of the Group of 77 in the GSTP Agreement. The GSTP Committee decided at its eighth session, in May-June 1996, to accept the accession of four applicants — Colombia, Morocco, Myanmar and Venezuela — on the basis of offers submitted by them. The first application for accession to GSTP by a subregional grouping of developing countries has come from MERCOSUR, which submitted its offer list to the GSTP participants with a view to initiating negotiations with interested participants and concluding its accession to the GSTP Agreement.

35. Product-by-product negotiations have been intensive. Participating countries have submitted their request lists relating to tariff, para-tariff and non-tariff concessions to the countries to which requests were addressed. After a number of bilateral consultations, participating countries moved to the negotiation phase and held five sessions of bilateral negotiations. Discussions proceeded in the area of across-the-board tariff negotiations, but with few practical results. Negotiations are also taking place on direct trade measures, external and non-tariff agreements, and long- and medium-term contracts. Negotiations in these areas have progressed

only slightly in view of the complexity of the issues involved.

36. At the present stage, there should be renewed efforts on the part of GSTP member countries to finalize the second round of negotiations and to conclude them at the level of plenipotentiaries in Geneva in 1997; the precise date will be decided by the GSTP Committee of Participants. It might be appropriate to reserve the GSTP round at the ministerial level for the launching of the third round of negotiations. For this round to achieve the objective of creating a framework to significantly increase trade among member countries of the Group of 77 and China, it may be of interest to the negotiating parties to have negotiations on the basis of linear reductions, with a minimum of exceptions; and to pursue product-by-product negotiations in order: (a) to improve preferential margins agreed in the linear reductions; and (b) to draw up a list of exceptions. It would be helpful to set the margin of preference agreed either in the linear reductions or in product-by-product negotiations at a sufficiently high level in order to have a real commercial impact on trade flows. In addition, the active encouragement of other member countries of the Group of 77 and China to join GSTP would guarantee its inclusiveness. As the San José documents recommend, there is a need to explore the feasibility of providing special preferences to least developed countries in order to enhance competitiveness and market access. In that context, the San José Plan of Action stated that the implementation of GSTP and the conduct of the second round of negotiations needed the continuous support of developing countries. Intensified efforts were needed to expand the scope of GSTP in terms of membership coverage, product coverage and depth of trade concessions. GSTP was already a major achievement. The successful completion of the second round would serve as a catalyst for growing preferential trade among its developing country members and impact favourably on world trade as a whole.

2. A complementary scheme of autonomous preferences in favour of least developed countries

37. Developing countries in a position to do so might take the initiative and examine the feasibility of complementing the present GSTP scheme with an autonomous scheme of preferences in favour of least developed countries. This would extend beyond GSTP measures, which are of a contractual nature. Such a scheme would nonetheless correspond to basic GSTP objectives. Such an initiative within the Group of 77 context would also respond to the recent initiative proposed in the WTO Action Plan for Least Developed Countries. This proposal provides that developed country members of WTO and developing country members, on an autonomous basis, would explore the possibilities of granting preferential duty-free access for the exports of least developed countries. In both cases, exceptions could be provided for.

38. In spite of various measures taken in favour of least developed countries, their foreign trade record is far from dynamic. This is also the case for their trade with other developing countries, including at the interregional level: their trade shares frequently tend to decrease, while their trade balances tend to deteriorate. A least developed country scheme by developing countries in a position to do so should aim at providing effective advantages to least developed countries to improve their competitiveness, and could be coupled with trade cooperation measures for effective use of such concessions.

3. Trade information and trade efficiency

39. Cooperation among developing countries in trade is hampered by the lack of adequate trade information and the inefficiency of links in trade infrastructure, as well as by the rather underdeveloped state of such infrastructure. The development of these facilities is needed in order to create trading opportunities, encourage private sector participation in trade promotion and improve competitiveness. The San José Plan of Action urged developing countries to pursue the optimal utilization of UNCTAD's trade information system and trade efficiency to improve South-South trade and in developing a appropriate on-line system in order to identify trading opportunities, as well as to provide other trade-related information relevant to the countries in the South.

4. Facilitating cooperation in government procurement

40. Developing countries may further examine the interest and possible scope of measures to facilitate cooperation in government procurement. This is a sector of considerable importance in international trade, as experience shows in South-East Asian countries and Latin America. The plurilateral Agreement on Government Procurement annexed to the WTO agreements applies essentially to developed countries (with few exceptions). Thus, this Agreement is more similar in character to an interregional preferential arrangement than to a worldwide agreement such as the WTO Agreement.

5. Cooperation in commodities and raw materials

41. Action and actual implementation of proposals in this area have related primarily to the establishment of the

Common Fund in 1986 and the putting into operation of its "second account". In other areas of international commodity cooperation, such as buffer-stock schemes, consumer-producer meetings on specific commodities, and stabilization funds, a large number of consultations and negotiations have taken place over the past 15 years without, however, achieving a tangible breakthrough. Producer associations continue to play an important role for certain commodities, but have not spread substantially into new areas.

42. Some progress in the direction of mutual assistance in developing, exploiting and processing developing countries' raw material resources is now beginning to be made through the second window of the Common Fund, which is pursuing various projects of that nature. Commodity diversification and processing are as important now to developing countries as they were 20 years ago. Likewise, many international commodity agreements now include special measures to promote the consumption of products of developing countries.

43. The San José Plan of Action recommended the enhancement of direct commodity trade flows between Southern countries and enterprises; and the processing value-added benefit of agricultural and mineral commodities in Southern countries.

IV. Monetary and financial cooperation

A. Cooperation in trade financing

1. The problem of trade finance at the national level

44. Developing countries face major bottlenecks in trade finance on account of both the inadequate level of resources available and the inappropriate institutional setting for delivering services related to export financing. Compared with exporters from developed countries, who can have easy access to specialized trade-finance facilities, exporters from developing countries, particularly exporters of non-traditional goods, are disadvantaged as they usually cannot offer long-term credits to overseas buyers or obtain at an affordable cost insurance coverage against the commercial and political risks involved for such exports. While the shortcoming in trade finance involves all trade, exports to other developing countries are particularly affected, since the importers have the same financial problems and developing country financial institutions typically do not deal with or know each other.

45. Shortcomings in the area of trade financing are usually related to:

(a) The limited and insufficient resources that individual developing countries can devote to export financing, especially foreign exchange resources;

(b) The relative weakness of developing country commercial banks, which makes their letters of credit less than fully credible;

(c) Manufacturers and other exporters have difficulties in obtaining export finance from national and foreign sources. At the domestic level, commercial banks usually do not give high priority to export finance assets, especially for non-traditional exports, as the degree of risk is high and risk-pooling inadequate. When institutions do extend credits, the latter are heavily tied to collaterals and usually finance only a small percentage of exports;

(d) International banks, which have in the past financed traditional exports, have shown little interest in granting pre-shipment credits to developing countries for non-traditional trade. When they agree to finance/refinance short-term export credits, the cost of such transactions can be extremely high, reflecting the greater risk in lending to developing countries. Furthermore, creditworthiness usually superimposes country risk over credit risk, and sets the charges and the availability of credit accordingly;

(e) Insurance and guarantees in support of trade financing are in short supply or do not exist in some countries. In addition, when granted by developed country agencies, they follow standard regulations that apply to export credit operations of developed countries (namely, the Consensus of the Organisation for Economic Cooperation and Development governing official export credit lending).

46. Institutional problems and financial shortages regarding trade financing have a particular impact on small and medium-size exporters of non-traditional goods. Most of these exporters have access only to informal local credit sources.

2. Existing regional trade-financing schemes

47. Given that trade financing at the national level is not always adequate, regional cooperation in the area of export finance, insurance and guarantees can help to overcome the difficulties, provide linkages between national institutions and encourage the exchange of information within regions. Moreover, regional institutions can in principle have better access to international financial markets.

48. Regional schemes are found in the Arab region and in the African and Latin American regions. Their number is small and their volume of operations is quite modest.

49. In the Arab countries, regional institutions providing trade financing and guarantees are the Arab Trade Financing Programme and the Inter-Arab Investment Guarantee Corporation (established in 1974), which also supports investment promotion. In the large domain which covers all the member States of the Organization of the Islamic Conference, the Islamic Development Bank is potentially a major source of trade financing for the region.

50. In the African region, efforts to foster institution-building gave rise to a number of facilities. In COMESA, the PTA Bank has started to offer various export-financing facilities. The PTA Reinsurance Company is engaged in transacting reinsurance business and insurance business related to international trade, as well as in training of insurance personnel. In addition, the Bank of Central African States offers trade finance to member countries. The newly created African Export Import Bank aims at promoting and expanding intra- and extra-African trade by means of a number of programmes designed mainly to encourage exports from African countries by financing, at a reasonable cost, the export of goods and services produced in Africa or containing significant value-added from the continent.

51. In Latin America, trade financing at the regional level has been carried out by the Latin American Export Bank, the Central American Bank for Economic Integration, the Andean Development Corporation, the Latin American Reserve Fund, the Inter-American Development Bank and the Eastern Caribbean Central Bank. The Latin American Export Bank specializes only in trade financing. The total credit portfolio ($4.5 billion as of 30 June 1995) is concentrated (74 per cent) in the three major Latin American economies (Brazil, Mexico and Argentina, which account for 70 per cent of the regional gross domestic product). This credit portfolio covers approximately 2 per cent of regional exports. The Andean Development Corporation provides pre-shipment and post-shipment financing, and both supplier and buyer credit, all of them denominated in United States dollars and for a period of up to 180 days. In addition, the Andean Development Corporation is active in indirect financing for the banking (intra- and extra-subregional) sector.

52. The Inter-American Development Bank provides export-financing support to Latin American countries on a national and regional basis. It finances exports through programmes using its own resources (ordinary capital) and resources from the Venezuelan Trust Fund. Co-financing activities of the Bank comprise the following: the use of funds under its administration as additional sources of finance; guaranteeing in whole or in part loans made by private lenders; and joint financing with a co-lender for the financing of the same components of a project and parallel financing in which the Bank and a co-lender make separate loans for the same programme or project, but each loan finances goods and services of a different component of the project or programme.

53. Perhaps because existing national schemes in general do provide support to exporters, the Asian region does not have a regional facility for export credit, guarantees and insurance. The Economic and Social Commission for Asia and the Pacific has proposed an export credit guarantee facility at the regional level with a view to linking national institutions of member countries and reinforcing them.

3. Furthering cooperation in trade finance

54. Cooperation in trade finance presupposes, to some extent, a viable national trade-financing capacity in developing countries. This is not always the case in the majority of developing countries.[1] However, some developing countries in all three regions have very well developed trade finance structures.

55. There is great merit to coordination of policies and practices by export-financing programmes in developing countries. They might seek some form of standardization, for example standardization of papers, rules of operation, credit-rating procedures, and insurance and guarantee treatment. In the area of regulatory policies, the following might be considered: the optional use of documentary credits for export transactions (still mandatory in some developing countries) and simpler procedures for non-bank providers of export finance, such as factors and invoice discounters. In addition, exporters could be allowed to use a portion of foreign exchange earnings to purchase modern financial products (e.g., credit insurance) that may not be available in their own markets.

56. Cooperation among regional financial institutions may include two types of activities: the co-financing of export credit operations, and cooperation aimed at fostering institution-building for trade-financing institutions. The former could be the task of regional development banks.

57. An innovative form of cooperation could be a triangular one, in which developing countries share their own expertise and developed countries provide financial and other assistance for this exchange of experience.

58. The San José Plan of Action contains trade-finance recommendations which go in the same direction. Specifically, it calls for expanding the risk-taking capacity of Southern banking systems so as to provide both normal and structural trade-finance for South-South trade transactions with multilaterally-agreed guarantee cover for credit enhancement and country risk. To that end, there was a need to exchange experience on exports financing through the dissemination of information among credit insurance institutions in the South. Furthermore, the UNCTAD prototype model of trade-financing for regional cooperation and for developing national capacities could be utilized to establish or enhance the institutional framework for trade-financing in the South.

B. Cooperation in capital market development

59. It is widely recognized that stock markets can be valuable and efficient sources of financing for enterprises. More and more developing countries are establishing stock markets. Cooperation among developing countries on capital market development may represent an option for countries that face obstacles in establishing efficient national stock markets. Regional capital markets enlarge the financing options for domestic firms by mobilizing both domestic and regional financial resources and offering risk-pooling opportunities for investors. They also enhance the allocative efficiency of capital. Regional capital markets present advantages for market actors. For both intra- and extraregional investors, they would provide opportunities for the diversification of portfolio risks, as well as access to more standardized and widespread information on listed securities and a more reliable pricing of available equities. For intraregional enterprises, they would provide access to an extended pool of financial resources.

60. The establishment of regional capital markets would require more intensive coordination of private and public agents at the national and regional level. At the national level, there are three major types of private actors involved in capital market operations: security exchanges (the parallel and the over-the-counter markets); domestic custody, settlement and clearing institutions; and listed companies and brokers. All these actors should be considered in setting up cooperative schemes. Such schemes would require telecommunication services and acceptable communication links among markets and market actors.

1. Institutional developments: regional private arrangements

61. The most important regional private arrangements and organizations are the schemes created by the securities markets themselves. Examples of private cooperation are the Caribbean Stock Exchange and the Ibero-American Electronic Stock Exchange project. The Caribbean Stock Exchange, operational since 1991, is a cooperation mechanism among the existing stock exchanges of the Caribbean Community integration group. It involves cross-border trading through correspondent-broker relationships and potential cross-border listing.

62. The Ibero-American Electronic Stock Exchange project was created in 1990 by members of the Ibero-American Stock Exchanges Federation, which includes all the major Latin American stock exchanges, as well as those of Portugal and Spain. The final aim of Ibero-American Electronic Stock Exchange is to provide an electronic process for trading of securities issued by major regional enterprises. Intraregional trading will be facilitated by settlements through Central Banks. It involves several phases of development. In Central America, the Association of Central American Stock Exchanges is preparing for large intra-grouping projects.

63. The Union of Arab Stock Exchanges, the East Asian and Oceanic Stock Exchanges Federation (established in 1982, and including Japan) and the African Stock Exchanges Association (established in April 1993 and including South Africa) also have as their objective the harmonization of and cooperation in securities trading in their respective regions.

2. Capital market cooperation at the official level

64. Governments provide the appropriate economic framework for securities trading, both domestic and cross-border. Also, they can directly promote regional capital markets through the placement of bonds in other countries of the region. They may give preferential treatment to intra-grouping investors. A typical example of government measures favouring intra-grouping securities investment is the non-reciprocal preferential scheme extended by Bahrain to investors from the member countries of the Gulf Cooperation Council for operations on the Bahrain Stock Exchange. Since 1986, citizens of other Gulf States have been allowed to own and trade shares of local companies in Bahrain.

65. In the MERCOSUR area, intra-grouping preferences are offered by member Governments on a mutual basis. Although there are certain restrictions (limitation to the spot market, trading in listed stocks and intra-MERCOSUR

settlement) and certain tax limits, intra-grouping securities trading is free.

66. Central monetary authorities usually effect settlement for cross-border transactions. However, in the case of MERCOSUR and the Gulf Cooperation Council, intra-grouping transactions are permitted, leading to a de facto regional capital account convertibility area. In the Ibero-American Electronic Stock Exchange scheme, central monetary authorities are viewed as agents of transaction settlements that link domestic securities clearing and settlement schemes.

3. Possible cooperation measures

67. Harmonization is best carried out in a way which respects the autonomy of domestic markets and their regulators. Perhaps it is best approached as a necessary minimum which eliminates incompatibilities among markets. An inventory of possible measures to facilitate cooperation may include[2] at the private sector level the establishment of regular channels of exchange of information among securities markets; the harmonization of technology in use, with the final aim of creating an interconnected regional electronic trading and settlement system; the creation of links for cross-border security trading in different countries; the establishment of a communication network; and the creation of regional instruments, i.e., warrants, depositary receipts, "regional funds", etc. At the public sector level, action may include the regional harmonization of taxation; the regional harmonization of regulation, supervision and financial disclosures, preferably based on international standards; and monetary and fiscal harmonization. In particular, setting up settlement systems and institutions, as well as establishing convertibility zones, might be in order.

68. The San José Plan of Action called for the pursuance of intraregional and interregional protocols to encourage integration of Southern financial markets. It also called for the expansion and diversification of South-South financial transactions.

C. Payments and monetary cooperation[3]

1. Regional convertibility schemes

69. In the developing world, the efforts towards regional convertibility in the framework of multilateral payments and clearing arrangements have had mixed results.

70. The Asian Clearing Union has been functioning smoothly. It has been able to avoid the accumulation of arrears throughout its existence. Also, it has promoted the use of participants' currencies in current transactions, including the compulsory routing of all intra-grouping trade (except between India and Nepal), which has led to significant savings in fees paid for internationally traded currencies. In 1989, the Asian Clearing Union launched its Swap Arrangement Facility, a mechanism for avoiding shortages of currencies in regional trade-deficit countries and the consequent bilateralization of multilateral clearing relations. The regional convertibility of national currencies is improving the functioning of the clearing house, and the percentage of transactions settled in member currencies has fluctuated in the last three years at around 70 per cent of the cleared trade. The uncompromising stance of the Asian Clearing Union on arrears has enabled it to launch new initiatives, such as making traveller's cheques eligible for channelling through the clearing house and eventually extending current membership.

71. In Africa, monetary cooperation is facilitated by three clearing and payments arrangements, namely the West Africa Clearing House for ECOWAS countries, the Clearing House for the Economic Community of Central African States (ECCAS) and the Clearing House for COMESA. The clearing houses expedite monetary transfers between African concerns by using the national currencies of the subregion involved; each signatory Central Bank agrees to grant to the other a total credit line in its own currency. The signatory Central Banks guarantee to the banking systems of the other signatory Central Banks the convertibility of intraregional transactions eligible for clearing. In addition, some of the clearing arrangements are considered as interim steps towards the formation of single monetary zones, for example the West Africa Clearing House and COMESA clearing.

72. In Latin America, the Reciprocal Payments and Credit Agreement of LAIA was set up in 1965. The clearing mechanism was modified in 1991 with a two-tier Automatic Payments Programme for the transitory financing of balances before multilateral compensation. One element of the amended agreement offers Central Banks automatic access to the credit or debit positions of other Central Banks; another element is a short-term credit facility which extends the settlement period for Central Banks with difficult liquidity positions. The most important modification was the authorization in 1992 to channel through the mechanism payments originated in triangular trade. It is notable that for most member States the channelling of payments for intraregional trade through the clearing mechanism is conducted on a voluntary basis. In 1994, a total of $11.72 billion was channelled through the LAIA mechanism; this was 11 per cent less than the total transactions channelled in 1993 ($13.18 billion). The degree of multilateral

compensation was reduced from 71 per cent in 1993 to 67 per cent in 1994.

73. The CARICOM Multilateral Clearing Facility suspended its activities in 1983, after six years of operation, as a result of the accumulation of arrears by one country. The region has re-examined the possibility of reactivating the Facility. A report, presented in 1991, concluded that the prospects for a resumed Facility were not propitious at that time.

74. As far as the Central American Clearing House is concerned, the crisis in 1987-1990 resulted from imbalances and a decline in intra-grouping trade which led to the accumulation of intra-Central American debt. In 1990, the Central American Clearing House was transformed into the Central American Payments System. However, operations continued to decline and were finally suspended in 1992. Despite the setback, the Central American Monetary Council has made efforts towards the harmonization and convergence of credit, monetary and exchange rate policies. In addition, it has adopted several measures aimed at fostering integration of capital markets and promoting the intraregional mobility of financial resources.

2. Clearance and payments arrangements in the context of the move towards global convertibility

75. The recent move made by certain developing countries towards global convertibility may make regional limited convertibility arrangements irrelevant. However, regional schemes may still provide some advantages. While global convertibility is a means of integration into the world economy, limited convertibility is a means of intraregional monetary and financial coordination. Payments and clearing arrangements can provide the following advantages: first, because of deferment of payments to the end of the settlement period, payments and clearing arrangements may remain attractive for countries planning to adopt full convertibility; second, if coupled with credit lines and swap arrangements, clearing arrangements can provide credit to finance intraregional trade; third, since monetary harmonization is essential for the success of limited convertibility arrangements, it is clearly a transitory step towards global convertibility; and fourth, the arrangements provide valuable monetary cooperation forums, as demonstrated by the Asian Clearing Union.

3. Monetary integration

76. It is only in Africa that monetary zones have been established (in the cases of the Communauté financière africaine (CFA) franc zone and the rand zone in southern Africa) or are being planned (as in the cases of ECOWAS and COMESA).

77. Monetary cooperation in the CFA franc zone is undergoing revision following the franc's devaluation in 1994, as is cooperation among members of the rand zone following the political change in South Africa and the ongoing negotiations on a revision of the Southern African Customs Union. It should be pointed out that the objective of setting up a single monetary zone in West Africa with a single currency and Central Bank might have to be considered in conjunction with the rather inconsistent objectives of the CFA franc zone. The countries of that zone, with their single currency and subregional central banks, have already attained this objective and thus are unlikely to consider an alternative mechanism. Indeed, the formation of the West African Economic and Monetary Union after the dissolution of the West African Economic Community, which involved only the CFA franc zone countries, is aimed at strengthening the monetary cooperation achieved in the CFA franc zone framework and at establishing a customs union and a common market.

V. South-South cooperation in the area of investment, innovation and enterprise development

A. Intra-South investment

78. Intra-South investment has emerged in recent years as a significant tool for industrial cooperation among developing countries. This phenomenon has developed most rapidly among the Asian countries, where outflows totalled around $41 billion out of total developing country outflows of $47 billion in 1995, but is also a fast-growing phenomenon among the Latin American countries and is emerging in Africa.

1. Intra-Asian investment

79. China has been the largest recipient of foreign investment in Asia as well as among all developing countries during the 1990s. Interestingly, the largest two investors in China were Hong Kong and Taiwan Province of China rather than developed countries. The Republic of Korea and Singapore have also been important sources of foreign capital for a large number of Asian countries in North-East Asia, South-East Asia and South Asia (including the Indian subcontinent).

80. The expected benefits of cumulatively easier trade and investment relations under regionalism, as in the case of the ASEAN Free Trade Area, are also acting as an important stimulus to South-South cooperation. While intra-ASEAN investments account for only a small share of ASEAN's total foreign direct investment inflows, the absolute figures are very impressive. Intra-ASEAN investment accounted for 10.2 per cent of ASEAN's total inward foreign direct investment stock in 1980, and although this share had fallen to 6.3 per cent by 1992, the value of such investments grew from $2.4 billion to $8.6 billion. However, on the world scale, intra-ASEAN investments are relatively small. This reflects the development level of ASEAN economies and their external orientation, since the major sources of capital (and markets) are outside the ASEAN region. While Singapore is a net capital exporter, the other ASEAN countries are still dependent on foreign capital inflows to cover the savings-investment gap.[4] The bulk of intra-ASEAN investments is represented by Singaporean investments in Malaysia, Indonesia and Thailand, and by Malaysian investments in Singapore.

81. Intra-ASEAN investments accounted for a much higher share of ASEAN's outward foreign direct investment stock, representing 59.1 per cent in 1980 and declining to 33.3 per cent in 1992. ASEAN outward investment flow has grown rapidly, rising from $1.6 billion in 1980 to $16.9 billion by 1992. ASEAN destinations declined in relative importance from 64.2 per cent (of $784 million) in 1980 to only 27.1 per cent (of $10.8 billion) in 1992. ASEAN investments are increasingly diversified to Hong Kong, China as well as North America, EU, Australia and New Zealand. For Asia as a whole, there is a noticeable upward trend in recent years for intra-investment. The intra-investments of the nine leading Asian countries as a share of inward investment increased to approximately 37 per cent in 1993.

2. Intra-Latin American investment

82. The role of developing countries as sources of inward foreign direct investment in the region has increased since the 1970s. In the mid-1970s, 10 host countries in the region had 20 per cent or less of their inward foreign direct investment stock accounted for by developing countries (with six countries having less than 10 per cent). Only four countries (Bolivia, El Salvador, Guatemala and Paraguay) derived more than 20 per cent of their inward foreign direct investment stock from developing countries. By the 1990s, the number of host countries that had developing country participation of more than 20 per cent had increased to seven (Chile, Ecuador, El Salvador, Guatemala, Peru, Paraguay and Uruguay); in Guatemala and Paraguay, in fact, developing countries accounted for more than one third of total inward foreign direct investment stock. Most of this third world foreign direct investment originates from elsewhere in Latin America, facilitated by integration initiatives, geographical proximity and complementary economies. In all host countries other than perhaps the Dominican Republic, intraregional foreign direct investment accounted for over 70 per cent of the inward foreign direct investment stock from developing countries in 1990; and in Colombia, Ecuador, El Salvador, Honduras, Panama and Peru, intraregional foreign direct investment accounted for 100 per cent or close to 100 per cent of all inward foreign direct investment stock from developing countries. Between 1981 and 1991, investment outflows from the region totalled $4.1 billion. With the formation of MERCOSUR in 1992, average annual intra-Latin American flows are estimated to have risen to around $3.8 billion.

3. Intra-African investment

83. Intra-African investment in 1995 is estimated to have been around $553 million. While this is a very small amount compared with intra-developing country flows in other regions, it represents a significant increase over previous years, since the average flow during 1990-1994 was only $160 million. Nigeria accounted for over 70 per cent of intra-African investment in 1995. However, with the consolidation of stability in the new South Africa, that country is expected to resume its role as a significant investor in the SADC subregion and eventually in the entire African region. Furthermore, greater political stability in the North African region should result in significant intra-Maghreb investment flows.

4. Cross-regional investment

84. While most South-South investment so far has been cross-border and intraregional, a process of cross-regional investment is likely to emerge slowly, with the most dynamic countries and firms leading the way. Foreign investors from the Asian region are already investing in Latin America and the Caribbean. For example, in the late 1980s to early 1990s, almost 100 textile companies from the Republic of Korea invested about $100 million in Central America and the Caribbean to take advantage of low labour costs, geographical proximity and unused quotas of those countries in the United States market involved in the Caribbean Basin Initiative. Moreover, in mid-1996, Daewoo of the Republic of Korea launched a major investor mission to South America and is already making plans to set up a $240 million video plant in Baja, California to gain access to NAFTA. Hyundai is planning to set up a manufacturing

plant in Brazil to increase production capacity in that country, and Samsung is planning a $581 million investment in the next four years in an industrial complex in Mexico to gain market access to NAFTA and establish local supplier networks to reduce imports. Taiwan Province of China has also set up shop in the industrial parks bordering the Panama Canal. Investors from the Republic of Korea and India are reportedly weighing up the possibility of investing in southern Africa.

B. Enterprise-level cooperation

85. Within the last decade or so, a number of South-based enterprises have increased in importance, on the basis of the level of their assets, sales and employment. Some of these enterprises have become genuine transnational corporations. There is considerable scope for cooperation among these enterprises, both within regions and across regions.

1. Supplier network arrangements

86. Supplier network arrangements among countries of the South can be forged by either non-South-based transnational corporations or third world transnational corporations. There is no reason why South-based transnational corporations cannot also develop such efficiency-enhancing network arrangements, which make full use of skill specialization and economies of scale. However, there would probably be a need for special programmes and various government stimuli to encourage this process, since indigenous firms may have a tendency or preference to source inputs from developed country transnational corporations, even when price and quality are basically the same.

2. Joint ventures and strategic alliances

87. The idea of pooling resources among producer enterprises is not a new one. However, whereas State-owned enterprises never gave very effective expression to the idea, the emphasis on private sector enterprise and initiative has given it a new lease of life. Equity joint ventures can help to minimize constraints stemming from lack of financial resources and production know-how. However, neither greenfield joint ventures nor mergers and acquisitions are a frequent cross-border activity in the South, and this is probably related to the weakness of the emerging capital markets and the continuing strong hold of family commercial traditions. Encouragement could perhaps be given to multinational enterprises through various incentives.

88. Strategic alliances or non-incorporated joint ventures could be useful for pooling resources with respect to design efforts and expenditures on research and development. Given the very rapid technological change and short product life cycles associated with the global competitive environment, this joint technological development activity can be encouraged by incentives, government subsidies and general public support.

89. While individual enterprises in the South have mainly formed technology partnership arrangements with counterparts in the developed world, towards the end of the 1980s dynamic innovative firms in the South also began to engage in a variety of new forms of partnering activity with other firms and research institutions in the South. In contrast to earlier assumptions concerning the importance of firm size for research and development, critical mass can be conceived quite differently today, notably in terms of the size of the "system" needed to acquire knowledge rather than the size of the firm alone. Research and development partnerships have been created between firms and local universities in the food processing, biotechnology and electronics industries in, among other countries, China, Mexico, Thailand and Chile. Inter-firm research and development partnerships also exist in the South; for example, in Latin America, a research and development partnership was formed between the national mining companies of Peru and Bolivia to develop metal biotechnology, and in Africa between South African and Kenyan firms for the transfer and development of technology in the forestry industry.

3. Cluster development strategies and cooperation

(a) Growth poles

90. Close investment and trade relations with other Asian countries have been said to be a major factor in the take-off of the Asian region. This process of take-off has been likened to Akamatsu-Ozawa's "flying geese". The "flying geese" metaphor is used to describe the inverted "V" formation and hierarchical structure of Asian regional economic development in which, for example, Japan is the "lead" economy, the newly industrializing economies form the first tier, the ASEAN Four (Indonesia, Malaysia, Philippines and Thailand) are the second tier, and the third tier may include, among others, China, India and Pakistan.

91. All economies pursue an export-oriented strategy and the lead economy is a major provider of technology, complementary inputs and, in the early stages, markets; but part of this process is in turn fuelled and magnified by rapid learning and imitating, and subsequently competing (given shortening product life cycles). The division of industrial

labour is a dynamic one, with shifting comparative advantage. This shift might be more aptly described as "relaying comparative advantage".

(b) Growth triangles

92. Complementing a regional or continent-wide growth cooperation strategy, there are policies of stimulating growth in certain subregions encompassing two or more countries. This is the concept of growth triangles, in which economies of scale can be achieved with respect to the use of skills, resources, finance, physical infrastructure and economic space. One outstanding example is the Indonesia-Malaysia-Singapore growth triangle, which was launched in 1990 and encompasses the Indonesian Riau islands, the Malaysian state of Johor, and Singapore. An interesting proposal is the Tumen River Triangle, encompassing border areas of the Democratic People's Republic of Korea, China and the Russian Federation.

C. Useful measures to promote investment cooperation

93. With investment in the last decade having risen faster than both trade and gross domestic product, and with continued impetus from expected further liberalization of portfolio and long-term capital flows in the future, the promotion of South-South cooperation desired by developing countries may include greater emphasis on the role of investment within the context of an integrated intra-South production framework. Indeed, the San José Plan of Action emphasized both the strengthening of national investment capacities and promotion of South-South investment. Specifically, it stated that: intra-South investment was an important element of economic cooperation among developing countries. It must be developed and strengthened in a spirit of partnership among the different actors involved in the economic process in our countries, in which the role of the private entrepreneurial sector was fundamental. For that purpose, the member countries of the Group of 77 and China should:

(a) Adopt concrete measures to encourage investment among developing countries in manufacturing as well as service sectors, such as the pooling of resources among the enterprises in the South through strategic alliances or non-incorporated joint ventures to minimize constraints stemming from the lack of financial resources and product know-how;

(b) Encourage direct investments through bilateral or multilateral agreements in accordance with improvement of financial and technical capabilities among developing countries;

(c) Introduce new markets among developing countries, including the free economic trade zones.

94. To encourage such cross-investments, the San José Plan of Action stated that Southern investment banks and development finance companies needed:

(a) To develop effective cross-border operating capacities and skills;

(b) To promote investments from other Southern countries through appropriate instruments;

(c) To know more about opportunities for investment in other Southern environs.

95. It added that the current nascent capacity of Southern financial institutions to mobilize resources in external capital markets could be expanded through strategic alliances among financial institutions, followed eventually by joint ventures.

96. In addition, the San José Plan of Action recommended that agreements for the protection of investments among developing countries should be pursued as a concrete measure to further South-South investments.

Notes

[1] For details of national trade-financing problems and infrastructure. See UNCTAD/ECDC/254 of 26 March 1996 entitled "Review of progress in trade-finance facilities of developing countries at the interregional, regional and subregional levels". The review was based on an UNCTAD survey of more than 100 institutions in all regions, two thirds of which responded.

[2] For a detailed analysis of the contents of these proposals, see UNCTAD/ECDC/246, 31 August 1994, entitled "The role of regional capital markets in enhancing resource mobilization and in promoting their efficient use".

[3] For a detailed review of all aspects of monetary cooperation, see UNCTAD/ECDC/238 of 4 February 1994, entitled "Clearing and payments arrangements among developing countries: Recent developments, long-term policy considerations".

[4] The dependence of Asian countries on foreign investment to cover the savings-investment gap should not mask the very impressive saving ratios they have achieved over the last decade.